

# **City of Saline, Michigan**

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**Financial Report  
with Supplemental Information  
June 30, 2008**

# City of Saline, Michigan

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## Independent Auditor's Report

To the City Council  
City of Saline, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Saline, Michigan (the "City") as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Saline, Michigan as of June 30, 2008 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and the budgetary comparison schedules are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

To the City Council  
City of Saline, Michigan

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Plante & Moran, PLLC*

September 25, 2008

# City of Saline, Michigan

## Management's Discussion and Analysis

Our discussion and analysis of the City of Saline, Michigan's (the "City") financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2008. Please read it in conjunction with the City's financial statements.

### Financial Highlights

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for the year ended June 30, 2008:

- Revenues from local property taxes remained about the same while maintaining the same combined overall local tax rate as in the prior fiscal year, with a decline in valuation due to resolution of a personal property appeal by the largest taxpayer basically offset by some moderate growth.
- State-shared revenue, traditionally the second largest revenue source, was again slightly reduced by the State of Michigan this fiscal year.
- The fund balance in the General Fund was strengthened by maintaining the same increased tax rate, settlement of the largest tax appeal at less than the tax rebate contingency that had been allocated, and by needing less new funding for 2004 street bond debt service as the remaining bond proceeds generated some interest earnings to partially cover the interest costs.
- There were no sales of additional industrial land during the fiscal year, although some earlier vacated business sites continue to slowly refill.
- Construction activity continued to diminish due to the housing market slump, but a successful brownfield cleanup program is allowing the start of a substantial condominium project and a substantial commercial project.
- Total unrestricted net assets related to the City's governmental activities increased by approximately \$461,000 due to a combination of increases in the revenue streams and also tightening up on the expenditures.
- Because of the possibility of the loss of the largest taxpayer, the municipality worked very deliberately to increase the undesignated fund balance for the total General Fund group from \$2,548,619 as of June 30, 2007 to \$3,221,187 as of June 30, 2008 in large part by restraining expenditures and partly by maintaining the increased tax rate. As the fiscal year ended, the City was hopeful that the manufacturing facility of the largest taxpayer would continue operating.

# City of Saline, Michigan

## Management's Discussion and Analysis (Continued)

- The settlement of the tax valuation appeals for 2006, 2007, and 2008 personal property by the City's largest taxpayer, Automotive Components Holdings LLC (ACH), owned by Ford, was substantially less than the contingency funds set aside for this purpose.
- Ford Motor Company reached a tentative Memorandum of Understanding with Johnson Controls to purchase the Saline plant, so ACH worked on installation of 28 new dock doors plus more active use of an additional 250,000 square feet as they continued to make the Saline site more desirable by bringing in production lines to Saline from Canada and from other Michigan plants like the one in Utica that is closing. If the facility did not continue to operate, the impact, starting in 2009 or 2010 and for several years during redevelopment, could be a loss of about \$350,000 annually to the General Fund and about \$200,000 annually to TIFA. If sold or otherwise continued in operation, the City anticipates a moderate positive tax impact because taxable valuation would likely go both from existing personal property moved here and from the likely new investment.
- During the fiscal year just ended, the City had 1.4067 mills of unused excess levy capacity available by vote of the City Council, which could provide about \$600,000 additional annually. Because the subsequent city operating tax rate was effectively reduced, the unused excess levy capacity is increased as described at the end of this discussion.

### Using this Annual Report

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. This longer-term view uses the accrual basis of accounting, so that it can provide an approximate measure of the cost of providing services during the current year and estimate how closely the taxpayers have funded the full cost of providing government services.

The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the City's operations in more detail than the government-wide financial statements by providing information about the City's most significant funds. The fiduciary fund statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the government.

# City of Saline, Michigan

## Management's Discussion and Analysis (Continued)

### The City as a Whole

The following table shows, in a condensed format, the net assets as of the current date and compared to the prior year (in thousands):

TABLE I

	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
<b>Assets</b>						
Current assets	\$ 8,238	\$ 7,351	\$ 3,335	\$ 2,963	\$ 11,573	\$ 10,314
Noncurrent assets	<u>33,908</u>	<u>35,852</u>	<u>35,624</u>	<u>34,569</u>	<u>69,532</u>	<u>70,421</u>
Total assets	42,146	43,203	38,959	37,532	81,105	80,735
<b>Liabilities</b>						
Current liabilities	3,167	2,817	1,470	1,107	4,637	3,924
Long-term liabilities	<u>15,816</u>	<u>17,118</u>	<u>12,892</u>	<u>11,885</u>	<u>28,708</u>	<u>29,003</u>
Total liabilities	<u>18,983</u>	<u>19,935</u>	<u>14,362</u>	<u>12,992</u>	<u>33,345</u>	<u>32,927</u>
<b>Net Assets</b>						
Invested in capital assets - Net of related debt	16,605	17,286	19,963	20,233	36,568	37,519
Restricted	3,245	3,130	2,522	1,740	5,767	4,870
Unrestricted	<u>3,313</u>	<u>2,852</u>	<u>2,112</u>	<u>2,567</u>	<u>5,425</u>	<u>5,419</u>
Total net assets	<u>\$ 23,163</u>	<u>\$ 23,268</u>	<u>\$ 24,597</u>	<u>\$ 24,540</u>	<u>\$ 47,760</u>	<u>\$ 47,808</u>

As we look at the governmental activities separately from the business-type activities, we note that unrestricted net assets - the part of net assets that can be used to finance day-to-day operations - increased by approximately \$461,000. The current very healthy level of unrestricted net assets for all of our governmental activities stands at approximately \$3,313,000, or about 26.9 percent of the total governmental expenditures for the primary governmental activities (not including the business-type activities or the component units). This strengthening of the unrestricted net assets was deliberate. The increase was also intended to continue into the next budget year to sufficiently prepare for the possible loss of revenues from the City's largest taxpayer starting in 2009 or 2010. Since there are no plans to immediately close the ACH plant, then the large accumulation of unrestricted net assets simply means that the City is in a very solid financial position.



# City of Saline, Michigan

## Management's Discussion and Analysis (Continued)

The following table shows the changes of the net assets during the year ended June 30, 2008 as compared to the prior year (in thousands):

TABLE 2

	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
<b>Revenue</b>						
Program revenue:						
Charges for services	\$ 2,531	\$ 2,359	\$ -	\$ -	\$ 2,531	\$ 2,359
Operating grants and contributions	547	557	-	-	547	557
Capital grants and contributions	928	2,569	361	352	1,289	2,921
General revenue:						
Property taxes	6,898	6,895	-	-	6,898	6,895
State-shared revenue	844	850	-	-	844	850
Unrestricted investment earnings	456	546	234	251	690	797
Gain from the disposal of capital assets	2	13	-	-	2	13
Miscellaneous	6	23	-	-	6	23
Special item - Road upgrade project	-	(742)	-	-	-	(742)
Water and sewer	-	-	3,076	3,161	3,076	3,161
Total revenue	12,212	13,070	3,671	3,764	15,883	16,834
<b>Program Expenses</b>						
General government	2,840	2,662	-	-	2,840	2,662
Public safety	2,533	2,467	-	-	2,533	2,467
Public works	1,516	1,561	-	-	1,516	1,561
Cemetery	94	79	-	-	94	79
Recreation and culture	2,167	2,046	-	-	2,167	2,046
Legislative	69	59	-	-	69	59
Building department	265	267	-	-	265	267
Highways and streets	1,953	2,015	-	-	1,953	2,015
Interest on long-term debt	732	727	-	-	732	727
Unallocated	145	164	-	-	145	164
Water and sewer	-	-	3,614	3,491	3,614	3,491
Total program expenses	12,317	12,047	3,614	3,491	15,931	15,538
<b>Change in Net Assets</b>	<b>\$ (105)</b>	<b>\$ 1,023</b>	<b>\$ 57</b>	<b>\$ 273</b>	<b>\$ (48)</b>	<b>\$ 1,296</b>

Two major sources that continue to keep revenues high are the strong returns on investments and the strong tax receipts from property taxes. The total of 15.5300 mills for the City tax rate has been maintained since it was increased in June 2004. The City's operating portion has also increased due to somewhat smaller shares going to refuse and voted debt. Unrestricted investment earnings remained strong this year, partly due to having more funds on hand to invest. Most other revenue items remained stable except for capital contributions, which were at an average level in the current year compared to the prior year when an unusually large amount of infrastructure had been contributed by developers. No City-owned industrial land was sold this year. General government expenditures only fluctuated slightly, mainly due to the prior year spending restraints. Costs for long-term debt are expected to stay level over the next few years.

# **City of Saline, Michigan**

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## **Management's Discussion and Analysis (Continued)**

### **Governmental Activities**

The City's total governmental revenues remained fairly flat this fiscal year, despite continued shortages in state-shared revenues and no land sales receipts. This was primarily due to the continuing increase in property tax receipts and strong interest income, which offset some of the negative factors.

The City's governmental expenses increased by about \$270,000. The major reason for this change was the concerted effort at fiscal restraint during the prior fiscal year. Along with the decrease in capital contributions, this resulted in a reduction of about \$105,000 in net assets by the end of the fiscal year.

### **Business-type Activities**

The City's business-type activities consist of the Water Fund and the Sewer Fund. The City provides drinking water to City residents from its municipal water system from underground wells. The City provides sewage treatment through a City-owned and operated sewage treatment plant. In 2007-2008, the City's water and sewer revenues flattened mainly due to a decrease in use. The activities incurred an overall slight gain for the year in net assets (approximately \$57,000), primarily due to the generated cash from investment income.

The municipality has ensured adequate funding for its business-type water and sewer activities by increasing the utility rates to cover all projects, operations, and maintenance of the utility systems. In June 2007, after a water and sewer system revenue study, the City Council adopted new water and sewer rates through 2011 in order to ensure favorable cash coverage ratios on the debt service for the upcoming \$1,700,000 sewer bond for two years of improvements. Construction of a new water treatment plant has improved the aesthetics of the drinking water since its substantial completion in the spring of 2005.

### **The City's Funds**

Our analysis of the City's major funds begins with the governmental funds balance sheet, following the government-wide financial statements that immediately follow this discussion. The fund financial statements provide detail information about the most significant funds, not the City as a whole. The City Council creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as special property tax millages. The City's major funds for 2007-2008 include the General Fund, the Major Streets Fund, the Local Streets Fund, the Municipal Streets Fund, and the Saline Recreation Complex Fund.

# City of Saline, Michigan

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## Management's Discussion and Analysis (Continued)

The General Fund pays for most of the City's governmental services. The most significant are general government, public safety, and public works, which incurred expenses of approximately \$6,504,000 in the 2007-2008 fiscal year. These services are partially supported from year to year by a special refuse millage and a fire special assessment which are recorded in the General Fund. During the 2007-2008 fiscal year, the fire and refuse accounted for about 2.0489 mills out of the 15.5300 mills of the total City tax levy. The remaining departments are funded by other various general revenue sources of the General Fund.

### **General Fund Budgetary Highlights**

Significant revenue side changes over the prior year were almost no increase in taxes, a drop in building permits, a continuing drop in state revenue sharing, an increase in charges for services, and a continued gain in interest earnings as funds have accumulated. Most of the expenses only changed incrementally except for an increase in general government due to a substantial tax rebate from the judgment on the ACH property tax appeal and a decrease in capital outlay due to tightening up on expenditures.

Over the course of the year, the City has amended the budget to take into account events during the year. In addition, some belt-tightening measures resulted in lower than budgeted expenditures for general government, public safety, public works, recreation, legislative, engineering, and capital outlay.

The amended budget had conservatively allowed for a moderate decline in fund balance. But the actual undesignated fund balance at June 30, 2008 turned out to be over \$600,000 higher than the prior year, now more than double the usual target of 15 percent of expenditures.

The municipality had been tightening budgets because any tax revenue gains were being moderated by reductions in personal property tax valuation as well as by Proposal A. Over the past few years, the taxable valuation of the largest taxpayer dropped from about one-seventh of the tax base to about one-twelfth of the tax base and had the possibility of closing mainly due to loss of market share by Ford Motor Company. During the past few years, the City had increased its total local tax rate to 15.5300 mills. It was decided to stay at this rate again for the next fiscal year, thereby projecting additional growing revenues for the General Fund. At this tax rate, the undesignated fund balance in the General Fund is projected to remain over 30 percent of budgeted expenditures at the end of this next fiscal year.

# City of Saline, Michigan

## Management's Discussion and Analysis (Continued)

### Capital Asset and Debt Administration

At the end of the 2007-2008 fiscal year, the City had about \$65 million (more than half debt-free) invested in a broad range of capital assets, including land, buildings, streets, police and fire equipment, and water and sewer lines. In addition, the City was planning to budget approximately \$3 million in additional infrastructure improvements (about half to come from remaining bond proceeds on hand) over the subsequent two years. The scope of the water system improvements during the past few years is a major factor in the continued improvement of the municipality's ISO insurance rating during the past few years, from a 6 to a 5, thereby lowering some insurance costs within the municipal boundaries.

The last table is a summary of debt, various debt ratios, and the legal debt margin. The City now has debt of slightly over one-half of its legal limit. For the \$1.7 million sewer capital bond issued during the 2008 fiscal year, the utility rates have already been moderately increased through 2011 to ensure sufficient utility revenues to cover the debt service. No additional debt is planned to be issued in 2009.

<b>DEBT STATEMENT (as of 06/30/08)</b>	<b>Outstanding</b>	<b>Totals</b>
2/01/01 Street \$3,000,000 UTGO Bonds (45% TIFA 23% LDFA1 10% LDFA2)	\$ 2,331,963	
2/01/01 Water & Sewer \$1,500,000 UTGO (44% TIFA 22% LDFA1 34% LDFA2)	1,174,108	
2/01/01 Sewer Odor Abatement \$1,540,000 UTGO (100% Sewer Utility Charges)	1,188,928	
9/25/03 Water \$6,840,000 UTGO, Bond Bank DWRF III (100% Water Utility Charges)	5,989,782	
4/01/04 Street \$4,500,000 UTGO Bonds (22% TIFA 23% LDFA1 5% LDFA2)	4,118,563	
4/01/04 Sewer \$160,000 UTGO Bonds (100% Sewer Utility Charges)	146,437	
10/01/05 DPW Facility \$4,500,000 LTGO Bonds	4,155,000	
10/01/05 Recreation Facility \$1,500,000 LTGO Bonds	1,385,000	
11/01/07 Sewer \$1,700,000 LTGO Bonds (100% Sewer Utility Charges)	1,700,000	\$ 22,189,781
3/26/92 Water & Sewer \$840,000 Revenue Refunding, Bond Bank (50% TIFA 50% LDFA1)	0	
6/17/93 Sewer \$350,000 Revenue, Bond Bank Sludge Tank (100% Sewer Utility Charges)	60,000	
7/01/98 Water & Sewer \$2,335,000 Revenue Bonds (73.5321% LDFA2)	1,735,000	\$1,795,000
8/01/98 Michigan Transportation Fund \$1,075,000 LTGO (100% LDFA2)	560,000	\$560,000
2/01/93 LDFA \$605,000 LTGO Authority Bond (100% LDFA1)	75,000	
4/01/00 City Hall/Police \$835,000 Remainder of 4/01/00 \$4,000,000 LTGO Authority Bond	360,000	
4/01/04 Recreational Facilities Refunding \$2,375,000 LTGO Authority Bond	850,000	
8/01/05 City Hall/Police \$2,815,000 Refunding of 4/01/00 \$4,000,000 LTGO Authority Bond	2,740,000	\$4,025,000
<b>TOTAL DIRECT DEBT</b>		<b>\$28,569,781</b>
7/02/98 DWRF I \$1,375,000 LTGO (County Issued Bonds, 100% Water Utility Charges)	835,000	
6/24/99 DWRF II \$1,420,000 LTGO (County Issued Bonds, 100% Water Utility Charges)	772,279	\$1,607,279
<b>TOTAL INDIRECT DEBT</b>		<b>\$1,607,279</b>
Less: Michigan Transportation Fund Bonds/Notes	(560,000)	
Revenue Bonds	(1,795,000)	(\$2,355,000)
<b>NET DIRECT AND INDIRECT DEBT</b>		<b>\$27,822,060</b>

  

<b>DEBT RATIOS (Net Direct and Indirect Debt)</b>	
Per Capita (9200 estimated current population based on 8,034 in 2000 Census)	\$3,024.14
Ratio to June 30, 2008 Ad Valorem Taxable Value (\$445,269,165)	6.25%
Ratio to June 30, 2008 Ad Valorem State Equalized Valuation (\$489,675,400)	5.68%
Ratio to June 30, 2008 Ad Valorem Estimated True Cash Value (\$979,350,800)	2.84%

# City of Saline, Michigan

## Management's Discussion and Analysis (Continued)

LEGAL DEBT MARGIN (including above Bonds, per Michigan P.A. 279 of 1909 as amended)		
June 30, 2008 State Equalized Valuation - excluding IFT values		\$489,675,400
Plus June 30, 2008 Act 198 Industrial Facilities Tax State Equalized Valuation (counted at half)		20,417,850
Total Valuation		\$510,093,250
<b>Debt Limit - 10% of State Equalized Valuation</b>		\$48,967,540
Amount of Direct Debt Outstanding		\$28,569,781
Less: Transportation Fund Bonds	(560,000)	
Revenue Bonds	(1,795,000)	(2,355,000)
Total Subject to Debt Limit		\$26,214,781
<b>Additional Debt Which Could Be Legally Incurred</b>		<b>\$22,752,759</b>

ADDITIONAL FINANCING (Including Installment Purchase)	Outstanding
11/01/04 Recreational Facilities \$413,400 Installment Purchase	\$236,229

DEBT HISTORY & FUTURE FINANCING
The City has no record of default. No debt is anticipated to be issued in 2009.

### Economic Factors and Next Year's Budgets and Rates

The City has experienced excess revenues during a time of several revenue challenges. These are the gradual economic decline which has stopped residential construction due to dropping housing values, the continuing impact of Proposal A, and weak state government finances. The statewide Tax Reform Act limits growth in taxable value on any individual property, and the State Tax Commission has established a 2.3 percent inflation rate for 2008 taxes (2008-2009 fiscal year). Because some properties increase in value by less than inflation, the mathematical result of this is that the total taxable value for the City will grow by less than inflation, before considering net new property additions.

Subsequent to June 30, 2008, the announcement came that Johnson Controls would not go through with the purchase of the ACH plant due to economic factors. Then ACH applied for a four-year tax abatement through December 30, 2012 for \$29 million of new investments, in order to try again to sell a fully functioning plant in a couple of years. Employment at the ACH plant has gone back up to about 1,650 employees from a low point of about 1,300 employees.

The City's tax base growth has gradually been changing to a larger proportion of residential, but a mix of uses still exists. The 2008 tax base composition as of the April 2008 apportionment report by the equalization department of Washtenaw County shows that 42.10 percent of the taxable valuation is still nonresidential. The recent drop in residential values and the anticipated additional investment in the ACH facility will likely stabilize these proportions.

The City's budget for the 2008-2009 fiscal year (fiscal year 2009 ending June 30, 2009) includes maintaining the past few years' increases in property tax rates, which has the effect of maintaining a significant fund balance in the General Fund. This has been accomplished partly due to some prior growth in our tax base and partly due to fiscal restraint.

# City of Saline, Michigan

## Management's Discussion and Analysis (Continued)

Since the 15 mill City Charter limit may be reduced each year by the Headlee tax-cap legislation, the remaining excess levy capacity is the result of subtracting the general operating millage rate from the rollback maximum and then adding back the fire portion of operating that could (at slightly lower efficiency) be levied separately.

	Total City Mills Levied	Refuse Tax Portion	Debt Portion	General Operating	Fire Portion	Rollback Maximum	Excess Levy Capacity
FY 04	12.9500	1.4500	0.5869	10.9131	0.8027	14.6325	4.5221
FY 05	13.7200	1.3000	0.7122	11.7078	0.7477	14.6325	3.6724
FY 06	15.5300	1.2600	0.8020	13.4680	0.7976	14.6281	1.9577
FY 07	15.5300	1.2400	0.4362	13.8538	0.7640	14.6281	1.5383
FY 08	15.5300	1.3000	0.2668	13.9632	0.7418	14.6281	1.4067
FY 09	15.5300	1.4400	0.4762	13.6138	0.7879	14.6281	1.8022

The three types of taxes that can be levied beyond the City Charter limit (as reduced in the rollback maximum column) are voted refuse, voted debt, and fire special assessment. During the past three years at the increased tax rate, the City has amassed a large fund balance to guard against possible loss of revenues from facility closure of the largest taxpayer. But it is now expected the facility will remain running for at least four years or more.

### Contacting the City's Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the clerk's office at (734) 429-4907, extension 2209.

# City of Saline, Michigan

## Statement of Net Assets June 30, 2008

	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Units
<b>Assets</b>				
Cash and cash equivalents (Note 3)	\$ 7,765,668	\$ 2,619,138	\$ 10,384,806	\$ 847,852
Receivables - Net (Note 4)	219,608	662,077	881,685	-
Internal balances	(29)	29	-	-
Due from other governmental units	223,503	-	223,503	-
Due from component units (Note 6)	29,160	38,465	67,625	-
Due from primary government (Note 6)	-	-	-	162,626
Inventories	-	15,365	15,365	-
Restricted assets (Note 8)	-	2,521,671	2,521,671	-
Investment in joint venture - Saline Area Fire Department (Note 13)	566,349	-	566,349	-
Capital assets (Note 5):				
Nondepreciated	1,562,301	1,343,599	2,905,900	40,749
Depreciated - Net	31,779,934	31,758,900	63,538,834	-
<b>Total assets</b>	<b>42,146,494</b>	<b>38,959,244</b>	<b>81,105,738</b>	<b>1,051,227</b>
<b>Liabilities</b>				
Accounts payable	662,050	462,483	1,124,533	5,095
Due to primary government (Note 6)	-	-	-	67,625
Due to other governmental units	-	-	-	91,257
Due to component units (Note 6)	133,885	28,741	162,626	-
Accrued and other liabilities	384,383	138,434	522,817	-
Noncurrent liabilities (Note 7):				
Due within one year	1,987,017	840,040	2,827,057	75,000
Due in more than one year	15,815,870	12,892,194	28,708,064	-
<b>Total liabilities</b>	<b>18,983,205</b>	<b>14,361,892</b>	<b>33,345,097</b>	<b>238,977</b>
<b>Net Assets</b>				
Invested in capital assets - Net of related debt	16,605,480	19,963,215	36,568,695	40,749
Restricted:				
Streets and highways	2,292,107	-	2,292,107	-
Solid waste and recycling	85,688	-	85,688	-
Debt service	-	233,500	233,500	-
Capital projects	28,912	2,288,171	2,317,083	-
Cemetery perpetual care	838,091	-	838,091	-
Unrestricted	3,313,011	2,112,466	5,425,477	771,501
<b>Total net assets</b>	<b>\$ 23,163,289</b>	<b>\$ 24,597,352</b>	<b>\$ 47,760,641</b>	<b>\$ 812,250</b>

# City of Saline, Michigan

		Program Revenues		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>Functions/Programs - Primary government</b>				
Governmental activities:				
General government	\$ 2,840,194	\$ 985,359	\$ 27,040	\$ -
Public safety	2,533,385	211,861	-	-
Public works	1,515,736	-	-	-
Cemetery	95,485	54,533	-	-
Recreation and culture	2,166,759	1,176,120	32,738	150,200
Legislative	69,365	-	-	-
Building department	265,240	102,683	-	-
Highways and streets	1,952,801	-	487,168	245
Interest on long-term debt	732,929	-	-	777,265
Unallocated depreciation	144,899	-	-	-
Total governmental activities	12,316,793	2,530,556	546,946	927,710
Business-type activities:				
Water	1,723,412	1,407,304	-	157,164
Sewer	1,890,158	1,668,988	-	203,861
Total business-type activities	3,613,570	3,076,292	-	361,025
Total primary government	<u>\$ 15,930,363</u>	<u>\$ 5,606,848</u>	<u>\$ 546,946</u>	<u>\$ 1,288,735</u>
Component units:				
Economic Development Corporation	\$ 181,768	\$ 12,811	\$ 135,000	\$ -
Tax Increment Finance Authority	1,053,347	-	-	-
Local Development Finance Authorities	657,595	-	-	-
Total component units	<u>\$ 1,892,710</u>	<u>\$ 12,811</u>	<u>\$ 135,000</u>	<u>\$ -</u>
General revenues:				
Property taxes				
State-shared revenues				
Unrestricted investment earnings				
Gain from the sale of capital assets				
Miscellaneous				
Total general revenues				
<b>Change in Net Assets</b>				
<b>Net Assets - Beginning of year</b>				
<b>Net Assets - End of year</b>				



**Statement of Activities**  
**Year Ended June 30, 2008**

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			
Governmental Activities	Business-type Activities	Total	Component Units
\$ (1,827,795)	\$ -	\$ (1,827,795)	\$ -
(2,321,524)	-	(2,321,524)	-
(1,515,736)	-	(1,515,736)	-
(40,952)	-	(40,952)	-
(807,701)	-	(807,701)	-
(69,365)	-	(69,365)	-
(162,557)	-	(162,557)	-
(1,465,388)	-	(1,465,388)	-
44,336	-	44,336	-
(144,899)	-	(144,899)	-
(8,311,581)	-	(8,311,581)	-
-	(158,944)	(158,944)	-
-	(17,309)	(17,309)	-
-	(176,253)	(176,253)	-
(8,311,581)	(176,253)	(8,487,834)	-
-	-	-	(33,957)
-	-	-	(1,053,347)
-	-	-	(657,595)
-	-	-	(1,744,899)
6,899,299	-	6,899,299	1,896,071
843,795	-	843,795	-
456,114	233,517	689,631	49,572
1,662	-	1,662	-
5,774	-	5,774	-
8,206,644	233,517	8,440,161	1,945,643
(104,937)	57,264	(47,673)	200,744
23,268,226	24,540,088	47,808,314	611,506
<b>\$ 23,163,289</b>	<b>\$ 24,597,352</b>	<b>\$ 47,760,641</b>	<b>\$ 812,250</b>

# City of Saline, Michigan

## Governmental Funds Balance Sheet June 30, 2008

	General Fund	Special Revenue - Major Streets	Special Revenue - Local Streets	Special Revenue - Municipal Streets	Special Revenue - Saline Recreation Complex	Nonmajor Governmental Funds	Total Governmental Funds
<b>Assets</b>							
Cash and cash equivalents (Note 3)	\$ 4,160,304	\$ 939,039	\$ 316,034	\$ 1,077,017	\$ 408,807	\$ 864,467	\$ 7,765,668
Receivables - Net (Note 4)	210,204	179	-	-	6,689	2,536	219,608
Due from other governmental units	-	59,124	20,674	-	-	-	79,798
Due from component units (Note 6)	22,207	-	-	6,953	-	-	29,160
<b>Total assets</b>	<b>\$ 4,392,715</b>	<b>\$ 998,342</b>	<b>\$ 336,708</b>	<b>\$ 1,083,970</b>	<b>\$ 415,496</b>	<b>\$ 867,003</b>	<b>\$ 8,094,234</b>
<b>Liabilities</b>							
Accounts payable	\$ 460,993	\$ 93,151	\$ 16,197	\$ -	\$ 91,709	\$ -	\$ 662,050
Accrued and other liabilities	200,983	1,345	2,308	-	29,387	-	234,023
Due to component units (Note 6)	120,000	-	-	13,885	-	-	133,885
Due to other funds (Note 6)	2	-	-	27	-	-	29
<b>Total liabilities</b>	<b>781,978</b>	<b>94,496</b>	<b>18,505</b>	<b>13,912</b>	<b>121,096</b>	<b>-</b>	<b>1,029,987</b>
<b>Fund Balances</b>							
Reserved - Solid waste and recycling	85,688	-	-	-	-	-	85,688
Unreserved, reported in:							
General Fund:							
Designated (Note 12)	303,862	-	-	-	-	-	303,862
Undesignated	3,221,187	-	-	-	-	-	3,221,187
Capital Projects Fund	-	-	-	-	-	28,912	28,912
Special Revenue Funds	-	903,846	318,203	1,070,058	294,400	838,091	3,424,598
<b>Total fund balances</b>	<b>3,610,737</b>	<b>903,846</b>	<b>318,203</b>	<b>1,070,058</b>	<b>294,400</b>	<b>867,003</b>	<b>7,064,247</b>
<b>Total liabilities and fund balances</b>	<b>\$ 4,392,715</b>	<b>\$ 998,342</b>	<b>\$ 336,708</b>	<b>\$ 1,083,970</b>	<b>\$ 415,496</b>	<b>\$ 867,003</b>	<b>\$ 8,094,234</b>

# City of Saline, Michigan

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## Governmental Funds Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets June 30, 2008

<b>Total Fund Balances of Governmental Funds</b>	<b>\$ 7,064,247</b>
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and are not reported in the funds	33,342,235
Revenue sharing due from the State not received within 60 days of year end is not available currently and is not recorded in the funds	143,705
Investment in joint venture is not a financial resource and is not reported in the funds	566,349
Long-term liabilities, including compensated absences, are not due and payable in the current period and are not reported in the funds	(17,802,887)
Interest amounts on long-term liabilities are not payable until due in the funds	<u>(150,360)</u>
<b>Net Assets of Governmental Activities</b>	<b><u>\$ 23,163,289</u></b>

# City of Saline, Michigan

## Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2008

	General Fund	Special Revenue - Major Streets	Special Revenue - Local Streets	Special Revenue - Municipal Streets	Special Revenue - Saline Recreation Complex	Nonmajor Governmental Funds	Total Governmental Funds
<b>Revenue</b>							
Property taxes	\$ 6,899,299	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 6,899,299
Licenses and permits	168,866	-	-	-	-	-	168,866
State sources	806,928	417,037	126,166	-	-	-	1,350,131
Charges for services	801,494	-	-	-	1,101,103	54,533	1,957,130
Fines and court costs	110,018	-	-	-	-	-	110,018
Interest earnings	345,555	35,853	11,768	48,100	10,446	41,782	493,504
Special assessments	245	-	-	-	-	-	245
Other	436,724	-	5,974	-	169,642	-	612,340
<b>Total revenue</b>	<b>9,569,129</b>	<b>452,890</b>	<b>143,908</b>	<b>48,100</b>	<b>1,281,191</b>	<b>96,315</b>	<b>11,591,533</b>
<b>Expenditures</b>							
Current:							
General government	2,913,810	20,000	10,000	-	15,424	425	2,959,659
Public safety	2,347,831	-	-	-	-	-	2,347,831
Public works	1,242,725	-	-	-	-	-	1,242,725
Cemetery	81,966	-	-	-	-	-	81,966
Recreation and culture	439,998	-	-	-	1,240,360	-	1,680,358
Legislative	69,365	-	-	-	-	-	69,365
Building department	212,594	-	-	-	-	-	212,594
Engineering department	219,285	-	-	-	-	-	219,285
Highways and streets	-	294,157	204,568	21,100	-	-	519,825
Other	74,142	-	-	-	-	-	74,142
Capital outlay	174,354	-	-	-	62,875	69,318	306,547
Debt service	328,694	-	-	213,551	335,920	337,818	1,215,983
<b>Total expenditures</b>	<b>8,104,764</b>	<b>314,157</b>	<b>214,568</b>	<b>234,651</b>	<b>1,654,579</b>	<b>407,561</b>	<b>10,930,280</b>
<b>Excess of Revenue Over (Under) Expenditures</b>	<b>1,464,365</b>	<b>138,733</b>	<b>(70,660)</b>	<b>(186,551)</b>	<b>(373,388)</b>	<b>(311,246)</b>	<b>661,253</b>
<b>Other Financing Sources (Uses)</b>							
Transfers in (Note 6)	-	-	80,000	127,345	270,000	330,000	807,345
Transfers out (Note 6)	(727,345)	(80,000)	-	-	-	-	(807,345)
<b>Total other financing sources (uses)</b>	<b>(727,345)</b>	<b>(80,000)</b>	<b>80,000</b>	<b>127,345</b>	<b>270,000</b>	<b>330,000</b>	<b>-</b>
<b>Net Change in Fund Balances</b>	<b>737,020</b>	<b>58,733</b>	<b>9,340</b>	<b>(59,206)</b>	<b>(103,388)</b>	<b>18,754</b>	<b>661,253</b>
<b>Fund Balances - Beginning of year</b>	<b>2,873,717</b>	<b>845,113</b>	<b>308,863</b>	<b>1,129,264</b>	<b>397,788</b>	<b>848,249</b>	<b>6,402,994</b>
<b>Fund Balances - End of year</b>	<b>\$ 3,610,737</b>	<b>\$ 903,846</b>	<b>\$ 318,203</b>	<b>\$ 1,070,058</b>	<b>\$ 294,400</b>	<b>\$ 867,003</b>	<b>\$ 7,064,247</b>

# City of Saline, Michigan

## **Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2008**

**Net Change in Fund Balances - Total Governmental Funds** **\$ 661,253**

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:

Capital outlay	\$ 306,938	
Net book value of assets disposed	(14,740)	
Depreciation expense	<u>(2,250,975)</u>	(1,958,777)

Revenue-sharing is recorded in the statement of activities when the revenue is earned; it is not reported in the funds until collected or collectible within 60 days of year end	2,832
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Accrued interest payable is recorded when due in governmental funds	(17,588)
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Change in joint venture equity interest is not a financial resource and is not reported in the governmental funds	15,709
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Repayment of bond principal and other long-term debt is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	1,277,907
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Changes in compensated absences are recorded when earned in the statement of activities	<u>(86,273)</u>
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**Change in Net Assets of Governmental Activities** **\$ (104,937)**

# City of Saline, Michigan

## Proprietary Fund - Enterprise Funds - Water and Sewer Funds Statement of Net Assets June 30, 2008

	Enterprise Funds - Major Funds		
	Water	Sewer	Total
<b>Current Assets</b>			
Cash and cash equivalents (Note 3)	\$ 708,829	\$ 1,910,309	\$ 2,619,138
Customer receivables (Note 4)	259,395	402,682	662,077
Due from component units (Note 6)	-	38,465	38,465
Due from other funds (Note 6)	10,255	1,751	12,006
Inventories	15,365	-	15,365
Total current assets	993,844	2,353,207	3,347,051
<b>Noncurrent Assets</b>			
Restricted assets (Note 8)	730,264	1,791,407	2,521,671
Capital assets (Note 5):			
Nondepreciated	43,831	1,299,768	1,343,599
Depreciated - Net	15,703,484	16,055,416	31,758,900
Total noncurrent assets	16,477,579	19,146,591	35,624,170
Total assets	17,471,423	21,499,798	38,971,221
<b>Current Liabilities</b>			
Accounts payable	62,338	400,145	462,483
Accrued and other liabilities	63,217	75,217	138,434
Due to component units (Note 6)	28,741	-	28,741
Due to other funds (Note 6)	1,722	10,255	11,977
Current portion of long-term debt (Note 7)	572,475	267,565	840,040
Total current liabilities	728,493	753,182	1,481,675
<b>Noncurrent Liabilities</b> - Long-term debt - Net of current portion (Note 7)	8,566,405	4,325,789	12,892,194
Total liabilities	9,294,898	5,078,971	14,373,869
<b>Net Assets</b>			
Investment in capital assets - Net of related debt	6,695,700	13,267,515	19,963,215
Restricted:			
Debt service	116,750	116,750	233,500
Wastewater treatment plant replacement	613,514	1,674,657	2,288,171
Unrestricted	750,561	1,361,905	2,112,466
Total net assets	<u>\$ 8,176,525</u>	<u>\$ 16,420,827</u>	<u>\$ 24,597,352</u>

# City of Saline, Michigan

## Proprietary Fund - Enterprise Funds - Water and Sewer Funds Statement of Revenue, Expenses, and Changes in Net Assets Year Ended June 30, 2008

	Enterprise Funds - Major Funds		
	Water	Sewer	Total
<b>Operating Revenue</b>			
Sale of water	\$ 1,320,677	\$ -	\$ 1,320,677
Sewage disposal charges	-	1,581,946	1,581,946
Other charges for services	86,627	87,042	173,669
Total operating revenue	1,407,304	1,668,988	3,076,292
<b>Operating Expenses</b>			
Cost of water produced/purchased	797,084	-	797,084
Cost of sewage treatment	-	1,013,620	1,013,620
Operation and maintenance	79,750	105,445	185,195
General and administrative	120,000	120,000	240,000
Depreciation	460,279	448,907	909,186
Total operating expenses	1,457,113	1,687,972	3,145,085
<b>Operating Loss</b>	(49,809)	(18,984)	(68,793)
<b>Nonoperating Revenue (Expense)</b>			
Investment income	48,876	184,641	233,517
Interest expense	(266,299)	(202,186)	(468,485)
Total nonoperating expense	(217,423)	(17,545)	(234,968)
<b>Loss - Before capital contributions</b>	(267,232)	(36,529)	(303,761)
<b>Capital Contributions - Contributions from LDFA and TIFA</b>	157,164	203,861	361,025
<b>Change in Net Assets</b>	(110,068)	167,332	57,264
<b>Net Assets - Beginning of year</b>	8,286,593	16,253,495	24,540,088
<b>Net Assets - End of year</b>	<u>\$ 8,176,525</u>	<u>\$ 16,420,827</u>	<u>\$ 24,597,352</u>

# City of Saline, Michigan

## Proprietary Fund - Enterprise Fund - Water and Sewer Funds Statement of Cash Flows Year Ended June 30, 2008

	Enterprise Funds - Major Funds		
	Water	Sewer	Total
<b>Cash Flows from Operating Activities</b>			
Receipts from customers	\$ 1,354,726	\$ 1,596,528	\$ 2,951,254
Payments to suppliers	(673,543)	(665,084)	(1,338,627)
Payments to employees	(205,694)	(427,341)	(633,035)
Payments to General Fund for administrative costs	(120,000)	(120,000)	(240,000)
Other receipts	86,627	87,042	173,669
Net cash provided by operating activities	442,116	471,145	913,261
<b>Cash Flows from Capital and Related Financing Activities</b>			
Contributions from financing authorities	264,624	233,817	498,441
Contributions from other funds	(8,533)	8,533	-
Proceeds from issuance of long-term debt	-	1,700,000	1,700,000
Principal, interest, and other paid on capital debt	(721,386)	(442,293)	(1,163,679)
Acquisition of capital assets	(54,097)	(804,676)	(858,773)
Net cash (used in) provided by capital and related financing activities	(519,392)	695,381	175,989
<b>Cash Flows from Investing Activities - Interest earnings</b>	48,876	184,641	233,517
<b>Net (Decrease) Increase in Cash and Cash Equivalents</b>	(28,400)	1,351,167	1,322,767
<b>Cash and Cash Equivalents - Beginning of year</b>	1,467,493	2,350,549	3,818,042
<b>Cash and Cash Equivalents - End of year</b>	<u>\$ 1,439,093</u>	<u>\$ 3,701,716</u>	<u>\$ 5,140,809</u>
<b>Classification of Cash and Cash Equivalents</b>			
Cash and cash equivalents	\$ 708,829	\$ 1,910,309	\$ 2,619,138
Restricted cash and cash equivalents	730,264	1,791,407	2,521,671
Total cash and cash equivalents	<u>\$ 1,439,093</u>	<u>\$ 3,701,716</u>	<u>\$ 5,140,809</u>
<b>Reconciliation of Operating Loss to Net Cash from Operating Activities</b>			
Operating loss	\$ (49,809)	\$ (18,984)	\$ (68,793)
Adjustments to reconcile operating loss to net cash from operating activities:			
Depreciation	460,279	448,907	909,186
Changes in assets and liabilities:			
Receivables	34,049	14,583	48,632
Accounts payable	6,028	9,637	15,665
Accrued and other liabilities	(8,431)	17,002	8,571
Net cash provided by operating activities	<u>\$ 442,116</u>	<u>\$ 471,145</u>	<u>\$ 913,261</u>

**Noncash Transactions** - During the year ended June 30, 2008, there were no noncash transactions.



# City of Saline, Michigan

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## **Fiduciary Fund Statement of Assets and Liabilities June 30, 2008**

	<u>Agency Fund</u>
<b>Assets</b>	
Cash and cash equivalents (Note 3)	\$ 192,042
Accounts receivable	<u>998,409</u>
Total assets	<u><b>\$ 1,190,451</b></u>
<b>Liabilities</b>	
Accounts payable	\$ 21,167
Accrued and other liabilities	184,483
Due to other governmental units	<u>984,801</u>
Total liabilities	<u><b>\$ 1,190,451</b></u>

# City of Saline, Michigan

## Component Units Statement of Net Assets June 30, 2008

	Economic Development Corporation	Tax Increment Finance Authority	Local Development Finance Authorities	Total
<b>Assets</b>				
Cash and cash equivalents	\$ 35,375	\$ 504,789	\$ 307,688	\$ 847,852
Due from primary government (Note 6)	-	14,193	148,433	162,626
Capital assets (Note 5)	-	-	40,749	40,749
Total assets	35,375	518,982	496,870	1,051,227
<b>Liabilities</b>				
Accounts payable	4,695	-	400	5,095
Due to primary government (Note 6)	2,870	38,125	26,630	67,625
Due to other governmental units	-	91,257	-	91,257
Debt - Due within one year (Note 7)	-	-	75,000	75,000
Total liabilities	7,565	129,382	102,030	238,977
<b>Net Assets</b>				
Investment in capital assets - Net of related debt	-	-	40,749	40,749
Unrestricted	27,810	389,600	354,091	771,501
Total net assets	<u>\$ 27,810</u>	<u>\$ 389,600</u>	<u>\$ 394,840</u>	<u>\$ 812,250</u>

# City of Saline, Michigan

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		Program Revenues	
		Charges for	Operating
	Expenses	Services	Grants/ Contributions
Economic Development Corporation	\$ 181,768	\$ 12,811	\$ 135,000
Tax Increment Finance Authority	1,053,347	-	-
Local Development Finance Authorities	657,595	-	-
Total governmental activities	<b>\$ 1,892,710</b>	<b>\$ 12,811</b>	<b>\$ 135,000</b>

## General revenues:

Property taxes

Interest

Total general revenues

## Change in Net Assets

**Net Assets** - Beginning of year

**Net Assets** - End of year

**Component Units  
Statement of Activities  
Year Ended June 30, 2008**

Net (Expense) Revenue and Changes in Net Assets			
Economic Development Corporation	Tax Increment Finance Authority	Local Development Finance Authorities	Total
\$ (33,957)	\$ -	\$ -	\$ (33,957)
-	(1,053,347)	-	(1,053,347)
-	-	(657,595)	(657,595)
(33,957)	(1,053,347)	(657,595)	(1,744,899)
-	1,079,878	816,193	1,896,071
2,639	22,587	24,346	49,572
2,639	1,102,465	840,539	1,945,643
(31,318)	49,118	182,944	200,744
59,128	340,482	211,896	611,506
<b>\$ 27,810</b>	<b>\$ 389,600</b>	<b>\$ 394,840</b>	<b>\$ 812,250</b>

### **Note 1 - Summary of Significant Accounting Policies**

The accounting policies of the City of Saline, Michigan (the "City") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the City of Saline, Michigan:

#### **Reporting Entity**

The City of Saline, Michigan is governed by an elected mayor and six-member council. As required by accounting principles generally accepted in the United States of America, these financial statements present the City of Saline, Michigan and its component units. The individual component units discussed below are included in the City's reporting entity because of the significance of their operational or financial relationships with the City.

The Building Authority is a City-created and directed authority whose sole business activity is acquiring and leasing property to the City. The Building Authority was created during the fiscal year ended June 30, 1990. Building Authority operations consist of the issuance and repayment of debt and the construction of facilities. Although it is legally separate from the City, it is reported as if it were part of the primary government because its primary purpose is to finance and construct the City's public buildings. The assets of the Building Authority held for payment of construction costs associated with the new municipal building and outstanding bond issues are reported in the Capital Projects Fund and Saline Recreation Complex Special Revenue Fund, respectively, along with the related liability associated with the bond issue.

The following component units are reported within the component units column in the financial statements. They are reported in a separate column to emphasize that they are legally separate from the City. There are no separately issued financial statements for each component unit; however, more detailed information on each component unit is disclosed in the other supplemental information section of these financial statements.

- a. The Local Development Finance Authority (LDFA) and the Tax Increment Finance Authority (TIFA) (collectively, the "Authorities") were created to promote economic growth and business development within the community. The Authorities' governing bodies each consist of 11 individuals who are selected by the City Council. In addition, each Authority's budget is subject to approval by the City Council.

### **Note 1 - Summary of Significant Accounting Policies (Continued)**

- b. The Economic Development Corporation (EDC) and Economic Development Trust (ED Trust) were created to provide means and methods for the encouragement and assistance of industrial and commercial enterprises in relocating, purchasing, constructing, improving, or expanding within the City so as to provide needed services and facilities of such enterprises to the residents of the City. The EDC's and the ED Trust's governing bodies each consist of 11 individuals who are selected by the City Council.

During the fiscal year ended June 30, 2008, the Economic Development Trust had no activity.

### **Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual Enterprise Funds are reported as separate columns in the fund financial statements.

### **Note I - Summary of Significant Accounting Policies (Continued)**

#### **Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Revenues are recognized in the accounting period in which they become susceptible to accrual - that is, when they become both measurable and available to finance expenditures of the fiscal period. For example, property taxes, state-shared revenue, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the City.

The City reports the following major governmental funds:

**General Fund** - The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. The activities of the General Fund shown in these financial statements include activities associated with Fire Special Assessment and Refuse.

**Major Streets and Local Streets Funds** - The Major Streets and Local Streets Funds account for repairs and maintenance of streets in the City which are financed primarily through state-shared revenues and miscellaneous local sources.

### **Note 1 - Summary of Significant Accounting Policies (Continued)**

**Municipal Street Fund** - The Municipal Street Fund is used to account for the development, construction, and improvements of major and local streets financed by the issuance of debt.

**Saline Recreation Complex Fund** - The Saline Recreation Complex Fund accounts for recreation and culture activities within the City which are financed through various user charges and miscellaneous local sources.

The City reports the following major proprietary funds:

**Water Fund** - The Water Fund is used to account for the results of operations that provide water services to citizens that are financed primarily by a user charge for the provision of that service.

**Sewer Fund** - The Sewer Fund is used to account for the results of operations that provide sewer service to citizens that are financed primarily by a user charge for the provision of that service.

Historically, the City presented the activity of the Water and Sewer Funds in one combined fund. During the year ended June 30, 2008, the funds were separated.

Additionally, the City reports the following fund type:

**Agency Fiduciary Fund** - The Agency Fiduciary Fund is used to account for assets held by the City in a trustee capacity or as an agent for individuals, organizations, or other governments. The fund is custodial in nature (assets equal liabilities) and does not involve the measurement of results of operations.

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The City has elected not to follow private sector standards issued after November 30, 1989 for its business-type activity.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City's water and sewer function and various other functions of the government. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.



### **Note 1 - Summary of Significant Accounting Policies (Continued)**

Amounts reported as program revenue include (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions, including special assessments.

Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, the City's policy is to first apply restricted resources.

The proprietary funds, the Water and Sewer Funds, distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with the proprietary funds' principal ongoing operations. The principal operating revenue of the proprietary funds relate to charges to customers for sales and services. In addition, the funds recognize the portion of tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for the proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

#### **Assets, Liabilities, and Net Assets or Equity**

**Cash and Cash Equivalents** - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value. Pooled investment income is generally allocated to each fund using a weighted average of balance for the principal.

**Investments** - Investments are reported at fair value, based on quoted market prices.

**Receivables and Payables** - In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

### Note 1 - Summary of Significant Accounting Policies (Continued)

**Inventories** - Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

**Restricted Assets** - The revenue bonds of the Enterprise Fund require amounts to be set aside for construction and a bond reserve. These amounts have been classified as restricted assets.

**Capital Assets** - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

#### Governmental Activities

Infrastructure	10 to 50 years
Buildings and improvements	8 to 50 years
Vehicles and equipment	3 to 20 years

#### Business-type Activities

Land improvements	5 to 20 years
Water and sewer lines and laterals	75 to 100 years
Wellsite	50 years
Buildings, treatment plant, and equipment	10 to 40 years

**Compensated Absences (Vacation and Sick Leave)** - It is the City's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. All sick and vacation pay is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end.

### **Note 1 - Summary of Significant Accounting Policies (Continued)**

**Long-term Obligations** - In the government-wide financial statements and the proprietary fund type in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activity, or proprietary fund-type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

**Use of Estimates** - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual amounts could differ from those estimates.

**Fund Equity** - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

### **Note 2 - Stewardship, Compliance, and Accountability**

**Budgetary Information** - Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General Fund and all Special Revenue Funds except that separate budgets are adopted for the general, fire special assessment, and refuse activities which comprise the General Fund as presented in the governmental funds statement of revenue, expenditures, and changes in fund balance.

# City of Saline, Michigan

## Notes to Financial Statements June 30, 2008

### Note 2 - Stewardship, Compliance, and Accountability (Continued)

A reconciliation of the budgetary comparison schedules to the fund-based statement of changes in fund balances is as follows:

	Balance per Budgetary Comparison Schedules				Transfer Between General Activity and Fire Special Assessment	Balance per Fund- based Statements Total General Fund
	General Activity	Fire Special Assessment	Refuse	Total		
Total revenues	\$ 8,999,401	\$ 330,028	\$ 569,728	\$ 9,899,157	\$ (330,028)	\$ 9,569,129
Total expenditures	7,538,877	329,830	566,085	8,434,792	(330,028)	8,104,764
Transfers out	727,345	-	-	727,345	-	727,345
Net change in fund balances	<u>\$ 733,179</u>	<u>\$ 198</u>	<u>\$ 3,643</u>	<u>\$ 737,020</u>	<u>\$ -</u>	<u>\$ 737,020</u>

The annual budget is prepared by City management and adopted by the City Council; subsequent amendments are approved by the City Council. Unexpended appropriations lapse at year end; encumbrances are not included as expenditures. The amount of encumbrances outstanding at June 30, 2008 has not been calculated. During the current year, the budget was amended in a legally permissible manner.

The budget has been adopted on an activity basis as provided in Section 19 of Public Act 621 of 1978 as amended. The General Appropriations Act, as drafted by the City Attorney and adopted by the City Council, authorizes the city manager to transfer up to a total of 10 percent of the appropriations without further approval of the City Council. All expenditures made during the fiscal year fell well within these limits.

	Original Budget	Amended Budget	Actual	Variance With Amended Budget
General Fund - Municipal buildings	\$ 134,000	\$ 129,000	\$ 146,050	\$ (17,050)
General Fund - Public works	358,071	355,671	383,109	(27,438)
General Fund - Historical commission	34,815	14,040	33,622	(19,582)
Saline Recreation Complex - Recreational and cultural	1,250,854	1,208,288	1,240,360	(32,072)
Municipal Streets - Debt service	197,431	197,431	213,551	(16,120)

Most of these expenditure overruns resulted from higher than anticipated general operational costs, for which the City Council had authorized higher expenditure levels.

### Note 3 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; investment pools which are allowed by specific state statutes; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The City has designated 11 banks for the deposit of its funds. The investment policy adopted by the City Council in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government and bank accounts and CDs, as well as the remainder of investments allowed by State statutory authority, as listed above. The City's deposits and investment policies are in accordance with statutory authority.

The City's cash and investments are subject to several types of risk, which are examined in more detail below:

**Custodial Credit Risk of Bank Deposits** - Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City does have a deposit policy for custodial credit risk, requiring diversification among banks to increase FDIC coverage (which totaled approximately \$1,000,000 at year end) and depositing beyond FDIC insurance only in banks that have superior financial ratios listed by the rating agencies. At year end, the City had \$12,620,669 of bank deposits (certificates of deposit, checking, allowed investment pool, and savings accounts) that were uninsured and uncollateralized. The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the City evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

### **Note 3 - Deposits and Investments (Continued)**

**Custodial Credit Risk of Investments** - Custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City does have a policy for custodial credit risk, requiring diligence and prudence of investment officials when considering investments in obligations other than those of an agency of the United States. At year end, the City had no investment securities that were uninsured and unregistered with securities held by the counterparty or by its trust department or agent but not in the City's name.

**Interest Rate Risk** - Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The City's investment policy does not restrict investment maturities, other than commercial paper which can only be purchased with a 270-day maturity. At year end, the City had no such investments.

**Concentration of Credit Risk** - The City does limit the amount the City may invest in any one issuer. The City currently has no one investment which exceeds 5 percent of its total investments.

**Foreign Currency Risk** - Foreign currency risk is the risk that an investment denominated in the currency of a foreign country could reduce its U.S. dollar value as a result of changes in foreign currency exchange rates. The City restricts the amount of investments in foreign currency and, thus, at year end had no securities subject to foreign currency risk.

**Pool and Sweep Accounts that are 2a7-like Investments** - At year end, the City had investments in three government investment funds that are operated in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. These funds are fully liquid for withdrawal at any time and the price per unit does not fluctuate with interest earned according to the amount and duration of investment. Two of these pools are not rated and the GASB Statement No. 40 disclosures do not otherwise apply, but each of the three funds does fully comply with Michigan's Public Act 20 of 1943 as amended.

# City of Saline, Michigan

## Notes to Financial Statements June 30, 2008

### Note 3 - Deposits and Investments (Continued)

At year end, the City had \$195,698 in this type of fund at Comerica Bank, plus \$812,490 in such a fund at Key Bank (Victory Federal Money Market Investor), plus \$2,267,214 in such a fund with MBIA Asset Management Group (Michigan CLASS which is rated AAA/V1 by Fitch).

### Note 4 - Receivables

Receivables as of year end for the City's individual major funds and the nonmajor funds are as follows:

	Major Governmental Funds			Nonmajor Governmental Fund	Total Governmental Activities	Major Business-type Funds		Total Business- type Activities	Total
	General Fund	Major Streets	Saline Recreation Complex	Cemetery Perpetual Care		Water Fund	Sewer Fund		
Receivables:									
Accounts	\$ 179,796	\$ -	\$ -	\$ -	\$ 179,796	\$ 259,395	\$ 402,682	\$ 662,077	\$ 841,873
Taxes	29,841	-	-	-	29,841	-	-	-	29,841
Interest and other	567	179	6,689	2,536	9,971	-	-	-	9,971
Net receivables	<u>\$ 210,204</u>	<u>\$ 179</u>	<u>\$ 6,689</u>	<u>\$ 2,536</u>	<u>\$ 219,608</u>	<u>\$ 259,395</u>	<u>\$ 402,682</u>	<u>\$ 662,077</u>	<u>\$ 881,685</u>

The City feels that all accounts receivable are fully collectible and, therefore, has not recorded an allowance for doubtful accounts.

# City of Saline, Michigan

## Notes to Financial Statements June 30, 2008

### Note 5 - Capital Assets

Capital asset activity of the primary government's governmental and business-type activities was as follows:

	Balance July 1, 2007	Reclassifications	Additions	Disposals and Adjustments	Balance June 30, 2008
Governmental activities:					
Capital assets not being depreciated:					
Land	\$ 1,412,842	\$ -	\$ -	\$ -	\$ 1,412,842
Construction in progress	185,306	(115,017)	79,170	-	149,459
Subtotal	1,598,148	(115,017)	79,170	-	1,562,301
Capital assets being depreciated:					
Infrastructure - Streets, sidewalks, curbs, storm sewers, and lighting	34,028,459	115,017	-	-	34,143,476
Buildings and improvements	19,302,890	-	60,323	(407,000)	18,956,213
Vehicles and equipment	3,681,141	-	167,445	(110,817)	3,737,769
Subtotal	57,012,490	115,017	227,768	(517,817)	56,837,458
Accumulated depreciation:					
Infrastructure - Streets, sidewalks, curbs, storm sewers, and lighting	15,356,547	-	1,399,132	-	16,755,679
Buildings and improvements	5,855,030	-	659,699	(400,000)	6,114,729
Vehicles and equipment	2,098,049	-	192,144	(103,077)	2,187,116
Subtotal	23,309,626	-	2,250,975	(503,077)	25,057,524
Net capital assets being depreciated	33,702,864	115,017	(2,023,207)	(14,740)	31,779,934
Net capital assets	<u>\$ 35,301,012</u>	<u>\$ -</u>	<u>\$ (1,944,037)</u>	<u>\$ (14,740)</u>	<u>\$ 33,342,235</u>



# City of Saline, Michigan

## Notes to Financial Statements June 30, 2008

### Note 5 - Capital Assets (Continued)

	Balance July 1, 2007	Reclassifications	Additions	Disposals and Adjustments	Balance June 30, 2008
Business-type activities:					
Capital assets not being depreciated:					
Land	\$ 186,933	\$ -	\$ -	\$ -	\$ 186,933
Construction in progress	401,551	(348,659)	1,103,774	-	1,156,666
Subtotal	588,484	(348,659)	1,103,774	-	1,343,599
Capital assets being depreciated:					
Land improvements	660,241	-	-	-	660,241
Water and sewer lines and laterals	21,799,625	-	1,568	-	21,801,193
Wellsite	226,746	-	-	-	226,746
Buildings, treatment plant, and equipment	19,004,369	348,659	76,320	(10,996)	19,418,352
Subtotal	41,690,981	348,659	77,888	(10,996)	42,106,532
Accumulated depreciation:					
Land improvements	91,091	218	37,044	-	128,353
Water and sewer lines and laterals	3,066,219	(2,739)	254,397	-	3,317,877
Wellsite	45,298	-	4,535	-	49,833
Buildings, treatment plant, and equipment	6,246,834	2,521	613,210	(10,996)	6,851,569
Subtotal	9,449,442	-	909,186	(10,996)	10,347,632
Net capital assets being depreciated	32,241,539	348,659	(831,298)	-	31,758,900
Net capital assets	\$ 32,830,023	\$ -	\$ 272,476	\$ -	\$ 33,102,499

Depreciation expense was charged to programs of the governmental activities in the primary government as follows:

General government	\$ 84,994
Public safety	36,103
Public works	141,540
Cemetery	4,410
Recreation and culture	365,203
Highways and streets	1,473,826
Unallocated	144,899
Total governmental activities	<u>\$ 2,250,975</u>

# City of Saline, Michigan

## Notes to Financial Statements June 30, 2008

### Note 5 - Capital Assets (Continued)

**Construction Commitments** - The City has various active construction projects at year end. The City's construction projects include the 2004 General Obligation Streets Bond issue, the 2007 General Obligation Bond issue, as well as various other City funds specifically allocated toward various capital improvements within the City. At year end, the City's commitments with contractors are as follows:

	Total Commitment	Spent to Date	Remaining Commitment
Major and local streets projects	\$ 898,766	\$ 140,611	\$ 758,155
Water and sewer improvements	1,233,261	718,372	514,889
Total	<u>\$ 2,132,027</u>	<u>\$ 858,983</u>	<u>\$ 1,273,044</u>

Capital assets of the component units consist of land of \$40,749 and fully depreciated equipment of \$97,034. There were no additions or disposals of capital assets in the component units during the year ended June 30, 2008.

### Note 6 - Interfund Receivables, Payables, and Transfers

Interfund balances and amounts due between the City and its component units represent routine and temporary cash flow assistance resulting from interfund activity until the amounts can be reimbursed.

The composition of interfund balances is as follows:

Receivable Fund	Payable Fund	Amount
Due to/from other funds:		
Water Fund	Sewer Fund	\$ 10,255
Sewer Fund	General Fund	2
	Municipal Streets Fund	27
	Water Fund	<u>1,722</u>
	Total Sewer Fund	<u>1,751</u>
	Total	<u>\$ 12,006</u>

# City of Saline, Michigan

## Notes to Financial Statements June 30, 2008

### Note 6 - Interfund Receivables, Payables, and Transfers (Continued)

Receivable Fund	Payable Fund	Amount
Due to/from primary government and component units:		
Primary government - General Fund	Component unit - Economic Development Corporation	\$ 2,870
	Component unit - Local Development Finance Authorities	2,618
	Component unit - Tax Increment Finance Authority	<u>16,719</u>
	Total General Fund	22,207
Primary government - Municipal Streets	Component unit - Local Development Finance Authorities	4,780
	Component unit - Tax Increment Finance Authority	<u>2,173</u>
	Total primary government - Municipal Streets	<u>6,953</u>
	Total governmental activities	29,160
Primary government - Sewer Fund	Component unit - Tax Increment Finance Authority	19,233
	Component unit - Local Development Finance Authorities	<u>19,232</u>
	Total business-type activities	<u>38,465</u>
	Total	<u>\$ 67,625</u>
Due to/from primary government and component units:		
Component unit - Local Development Finance Authorities	Primary government - General Fund	\$ 120,000
Component unit - Local Development Finance Authorities	Primary government - Municipal Streets	<u>13,885</u>
	Total governmental activities	133,885
Component unit - Local Development Finance Authorities	Primary government - Enterprise Fund	14,548
Component unit - Tax Increment Finance Authority	Primary government - Enterprise Fund	<u>14,193</u>
	Total business-type activities	<u>28,741</u>
	Total	<u>\$ 162,626</u>

# City of Saline, Michigan

## Notes to Financial Statements June 30, 2008

### Note 6 - Interfund Receivables, Payables, and Transfers (Continued)

<u>Fund Transferred From</u>	<u>Fund Transferred To</u>	<u>Amount</u>
General Fund	Municipal Street Fund (3)	\$ 127,345
	Capital Projects - Building Authority (3)	330,000
	Saline Recreation Complex Fund (2)	160,000
	Saline Recreation Complex Fund (3)	<u>110,000</u>
	Total General Fund	727,345
Major Streets Fund	Local Streets Fund (1)	<u>80,000</u>
	Total	<u>\$ 807,345</u>

The following describes the nature of the transfers:

- (1) Transfers for capital improvements
- (2) Transfers of discretionary funds to be used for the benefit of the community
- (3) Transfer for debt service

### Note 7 - Long-term Debt

The City issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the City. Installment purchase agreements are also general obligations of the City. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service.

### Note 7 - Long-term Debt (Continued)

Long-term obligation activity can be summarized as follows:

	Principal Ranges Due in Future Years	Interest Rate Ranges in Future Years	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:							
General obligation bonds:							
1998 Transportation Fund Bonds							
Amount of issue - \$1,075,000							
Maturing through 2014	\$105,000-\$115,000	4.5%-4.65%	\$ 660,000	\$ -	\$ 100,000	\$ 560,000	\$ 105,000
2004 Building Authority (Recreational Facilities)							
Refunding Bond							
Amount of issue - \$2,375,000							
Maturing through 2010	\$420,000-\$430,000	3.00%	1,265,000	-	415,000	850,000	420,000
2000 Building Authority General Obligation Limited							
Tax Bonds							
Amount of issue - \$4,000,000							
Maturing through 2020	\$175,000-\$325,000	5.1%-5.65%	525,000	-	165,000	360,000	175,000
2005 Building Authority Refunding Bonds							
Amount of issue - \$2,815,000							
Maturing through 2020	\$25,000-\$315,000	3.625%-4.000%	2,765,000	-	25,000	2,740,000	25,000
2001 General Obligation Road Bonds (Unlimited Tax)							
Amount of issue - \$3,000,011							
Maturing through 2021	\$129,140-\$238,411	4.60%-4.70%	2,456,135	-	124,172	2,331,963	129,140
2004 Unlimited Tax General Obligation Bonds							
Amount of issue - \$4,500,000							
Maturing through 2024	\$173,820-\$357,296	3.00%-4.50%	4,268,241	-	149,678	4,118,563	173,820
2005 GO Capital Improvement (DPW) Bonds							
Amount of issue - \$4,500,000							
Maturing through 2025	\$34,000-\$274,000	3.65%-4.00%	4,335,000	-	180,000	4,155,000	195,000
2005 GO Capital Improvement (Recreation) Bonds							
Amount of issue - \$1,500,000							
Maturing through 2025	\$11,000-\$91,000	3.65%-4.00%	1,445,000	-	60,000	1,385,000	65,000
2004 Installment purchase Recreation							
Purchase obligation Dectron unit - \$413,000							
Maturing through 2011	\$59,057	3.25%	295,286	-	59,057	236,229	59,057
Total bonds and installment obligations			18,014,662	-	1,277,907	16,736,755	1,347,017
Compensated absences			979,859	725,952	639,679	1,066,132	640,000
Total governmental activities			\$ 18,994,521	\$ 725,952	\$ 1,917,586	\$ 17,802,887	\$ 1,987,017

# City of Saline, Michigan

## Notes to Financial Statements June 30, 2008

### Note 7 - Long-term Debt (Continued)

	Principal Ranges Due in Future Years	Interest Rate Ranges in Future Years	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Business-type activities:							
General obligation bonds:							
1999 General Obligation Limited Tax Water Bonds							
Amount of issue - \$1,197,279							
Maturing through 2018	\$60,000-\$77,279	2.50%	\$ 827,279	\$ -	\$ 55,000	\$ 772,279	\$ 60,000
1998 General Obligation Limited Tax Water Bonds							
Amount of issue - \$1,375,000							
Maturing through 2019	\$65,000-\$85,000	2.50%	900,000	-	65,000	835,000	65,000
2001 General Obligation Water & Sewer Bonds							
Amount of issue - \$1,500,000							
Maturing through 2021	\$65,000-\$119,000	4.60%-4.70%	1,228,058	-	62,086	1,165,972	64,569
2001 General Obligation Sewer Bonds							
Amount of issue - \$1,540,000							
Maturing through 2021	\$66,300-\$122,000	4.60%-4.70%	1,260,806	-	63,742	1,197,064	66,291
2004 Unlimited Tax General Obligation Sewer Bonds							
Amount of issue - \$160,000							
Maturing through 2024	\$6,180-\$12,704	3.00%-4.50%	151,759	-	5,322	146,437	6,180
2004 General Obligation Water Bonds							
Amount of issue - \$6,840,000	\$285,000-\$430,000	2.50%	6,198,826	-	209,044	5,989,782	285,000
2007 General Obligation Sewer Bonds							
Amount of issue - \$1,700,000							
Maturing through 2028	\$55,000-\$140,000	3.75%-4.00%	-	1,700,000	-	1,700,000	-
Revenue bonds:							
1987 Revenue Water & Sewer Bonds							
Amount of issue - \$1,300,000							
Maturing through 2008	-	8.75%	110,000	-	110,000	-	-
1993 Revenue Sewer Bonds							
Amount of issue - \$350,000							
Maturing through 2009	\$60,000	5.90%	105,000	-	45,000	60,000	60,000
1998 Revenue Water & Sewer Bonds							
Amount of issue - \$2,335,000							
Maturing through 2017	\$155,000-\$220,000	4.70%	1,815,000	-	80,000	1,735,000	155,000
Total bonds			12,596,728	1,700,000	695,194	13,601,534	762,040
Compensated absences			149,244	59,876	(78,420)	130,700	78,000
Total business-type activities			\$ 12,745,972	\$ 1,759,876	\$ 616,774	\$ 13,732,234	\$ 840,040

Annual debt service requirements to maturity for the above bond and note obligations are as follows:

	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2009	\$ 1,347,017	\$ 669,807	\$ 2,016,824	\$ 762,040	\$ 454,582	\$ 1,216,622
2010	1,409,124	620,196	2,029,320	789,934	426,083	1,216,017
2011	1,036,230	567,222	1,603,452	812,827	398,986	1,211,813
2012	988,338	527,383	1,515,721	845,719	370,737	1,216,456
2013	976,387	489,144	1,465,531	878,613	341,255	1,219,868
2014-2018	5,012,690	1,860,975	6,873,665	4,632,310	1,217,755	5,850,065
2019-2023	4,739,671	794,402	5,534,073	3,412,607	488,203	3,900,810
2024-2028	1,227,298	68,678	1,295,976	1,467,484	86,914	1,554,398
Total	\$ 16,736,755	\$ 5,597,807	\$ 22,334,562	\$ 13,601,534	\$ 3,784,515	\$ 17,386,049

# City of Saline, Michigan

## Notes to Financial Statements June 30, 2008

### Note 7 - Long-term Debt (Continued)

**Additional Resources** - The Local Development and Tax Increment Finance Authorities have committed to pay certain obligations of the City of Saline and to provide funding to the Economic Development Corporation to the extent that future property tax captures are sufficient to do so. The estimated amounts that may be paid under these commitments are as follows:

	Tax Increment Finance Authority	Local Development Finance Authority - Shelton District	Total
2009	\$ 592,788	\$ 447,489	\$ 1,040,277
2010	593,791	450,597	1,044,388
2011	294,568	452,994	747,562
2012	295,092	449,539	744,631
2013	295,388	445,384	740,772
2014-2018	949,095	1,469,787	2,418,882
2019-2021	495,635	540,355	1,035,990
Total	<u>\$ 3,516,357</u>	<u>\$ 4,256,145</u>	<u>\$ 7,772,502</u>

The estimated amounts that may be received by the City and the Economic Development Corporation under these commitments are as follows:

	City of Saline	Economic Development Corporation	Total
2009	\$ 905,277	\$ 135,000	\$ 1,040,277
2010	909,388	135,000	1,044,388
2011	612,562	135,000	747,562
2012	609,631	135,000	744,631
2013	605,772	135,000	740,772
2014-2018	2,283,882	135,000	2,418,882
2019-2021	1,035,990	-	1,035,990
Total	<u>\$ 6,962,502</u>	<u>\$ 810,000</u>	<u>\$ 7,772,502</u>

# City of Saline, Michigan

## Notes to Financial Statements June 30, 2008

### Note 7 - Long-term Debt (Continued)

In addition, the Sauk Trail LDFA District has committed to repay the City monies advanced for projects performed within the District during its initial startup. As of June 30, 2008, the commitment payable to the City's General and Major Streets Funds amounted to \$1,678,445 and \$283,998, respectively.

**Future Revenues Pledged for Debt Payments** - The City has pledged substantially all revenue of the water and sewer funds, net of operating expenses, to repay the above water and sewer revenue bonds. Proceeds from the bonds provided financing for the construction and improvements of the water supply and sewage disposal systems. The bonds are payable solely from the net revenues of the water and sewer system. The remaining principal and interest to be paid on the bonds total \$2,241,158. During the year, net revenues of the system were \$164,724 compared to the annual debt requirements of \$330,138.

**Defeased Debt** - In prior years, the City defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. As a result, the bonds are considered to be defeased and the liability for the bonds has been removed from the City's schedule of debt obligations. At June 30, 2008, \$3,840,000 of bonds outstanding are considered defeased.

**Component Unit Obligations** - Long-term obligations of the component units consist of 1993 Limited Tax General Obligation Bonds originally issued in the amount of \$605,000. The balance outstanding on the bonds at June 30, 2008 was \$75,000, with final payment due in 2009 at 6.10 percent (total interest due of \$4,576).

### Note 8 - Restricted Assets

Restricted assets at June 30, 2008 consist of cash and cash equivalents restricted for the following:

Restricted for debt service - Water and sewer 10 percent bond reserve	\$ 233,500
Restricted for capital projects - Wastewater treatment plant replacement	<u>2,288,171</u>
Total	<u>\$ 2,521,671</u>



### **Note 9 - Risk Management**

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City has purchased commercial insurance for medical claims and participates in the Michigan Municipal League risk pool for claims relating to employee injuries, property loss, torts, and errors and omissions. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

### **Note 10 - Postemployment Benefits**

The City provides healthcare and life insurance benefits to all full-time employees upon retirement, in accordance with labor contracts. Currently, 23 retirees are eligible. The City includes pre-Medicare retirees and their dependents in its insured healthcare plan, with no contribution required by the participant. The City purchases Medicare supplemental insurance for retirees eligible for Medicare.

Expenditures for postemployment healthcare benefits are recognized as the insurance premiums become due; during the year, this amounted to approximately \$270,000.

#### **Upcoming Reporting Change**

The Governmental Accounting Standards Board has recently released Statement No. 45, *Accounting and Reporting by Employers for Postemployment Benefits Other than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any other postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree healthcare coverage over the working life of the employee, rather than at the time the healthcare premiums are paid. The new pronouncement is effective for the year ending June 30, 2009.

In connection with the upcoming reporting change, the City has established a trust to which annual contributions are made in order to fund future postemployment benefits. The trust was established through the Municipal Employees' Retirement System of Michigan (MERS) Health Care Saving Program. The City has contributed \$991,619 since 2005, including \$207,732 contributed during the current year.

### Note 11 - Pension Plan

**Plan Description** - The City participates in the Municipal Employees' Retirement System of Michigan (MERS), an agent multiple-employer defined benefit pension plan that covers all employees of the City. The MERS provides retirement, disability, and death benefits to plan members and their beneficiaries. The MERS issues a publicly available financial report that includes financial statements and required supplementary information for the MERS. That report may be obtained by writing to the MERS at 1134 Municipal Way, Lansing, MI 48917.

**Funding Policy** - The obligation to contribute to and maintain the system for these employees was established by a City Council resolution and negotiation with the employee competitive bargaining units and requires no contribution from the employees.

**Annual Pension Costs** - For the year ended June 30, 2008, the City's annual pension cost of \$688,630 for the plan was equal to the City's required contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2005, using the attained age actuarial funding method. Significant actuarial assumptions used include (a) an 8.0 percent investment rate of return, (b) projected salary increases ranging from 4.5 percent to 12.9 percent per year, and (c) 2.5 percent per year cost of living adjustments. Both (a) and (b) include an inflation component of 4.5 percent. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis. The remaining amortization period is five years.

Trend information is as follows:

	Fiscal Year Ended June 30		
	2008	2007	2006
Annual pension costs (APC)	\$ 688,630	\$ 614,395	\$ 518,947
Percentage of APC contributed	100%	100%	100%
Net pension obligation	None	None	None
	Valuation as of December 31		
	2007	2006	2005
Actuarial value of assets	\$ 12,181,267	\$ 11,300,925	\$ 10,654,717
Actuarial accrued liability (AAL) (entry age)	\$ 17,280,164	\$ 16,239,424	\$ 15,390,775
Unfunded AAL (UAAL)	\$ 5,098,897	\$ 4,938,499	\$ 4,736,058
Funded ratio	70%	70%	69%
Covered payroll	\$ 3,559,118	\$ 3,532,470	\$ 3,432,186
UAAL as a percentage of covered payroll	143%	140%	138%

# City of Saline, Michigan

## Notes to Financial Statements June 30, 2008

### Note 12 - Designated Fund Balance

Fund balance has been designated in the General Fund as follows:

Bixby Puppets donations	\$ 1,500
Act 302 police training	6,951
E911 Secondary PSAP	214,147
CATV fee to schools	37,630
TIFA business area	40,770
Green Thumb donations	793
Youth Council donations	100
State 911 dispatch training	1,971
Total	<u>\$ 303,862</u>

### Note 13 - Joint Venture

The City participates as a member of the Saline area fire department, which provides fire protection services to the residents of the City of Saline and Lodi, York, and Saline Townships. The participating communities provide annual funding for its operations, fire runs, and capital improvements. During the current year, the City contributed the following:

Operations	\$ 271,796
Fire runs	8,782
Capital improvements	<u>47,250</u>
Total	<u>\$ 327,828</u>

The City's equity interest in this joint venture is \$566,349.

The City is unaware of any circumstances that would cause an additional benefit or burden to the participating governments in the near future. Complete financial statements for the Saline area fire department can be obtained from the administrative offices at the City of Saline, 100 North Harris, Saline, Michigan.

# City of Saline, Michigan

## Notes to Financial Statements June 30, 2008

### Note 14 - Construction Code Fees

The City oversees building construction, in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The City charges fees for these services. The law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the activity for the year ended June 30, 2008 is as follows:

Shortfall - Beginning of year		\$ (713,304)
Current year building permit revenue	\$ 102,683	
Related expenses:		
Direct costs	\$ 212,594	
Estimated indirect costs	<u>80,569</u>	
Total expenses	<u>293,163</u>	
Current year shortfall		<u>(190,480)</u>
Cumulative shortfall - End of year		<u>\$ (903,784)</u>

### Note 15 - Property Taxes

Property taxes in the City's General Fund are comprised of the following components:

	Operating	Voted Debt	Refuse	Total
Taxable value	\$ 474,718,263	\$ 474,718,263	\$ 474,718,263	\$ 474,718,263
Rate	13.9632	0.2668	1.3000	15.5300
Less IFT abatement	(325,927)	(6,228)	(30,344)	(362,499)
Total tax levy	\$ 6,581,851	\$ 125,751	\$ 612,789	\$ 7,320,391
Less TIFA	(310,182)	-	(28,879)	(339,061)
Less LDFA	<u>(361,676)</u>	<u>-</u>	<u>(33,672)</u>	<u>(395,348)</u>
General Fund tax levy	5,909,993	125,751	550,238	6,585,982
Tax administration fee	<u>243,872</u>	<u>-</u>	<u>-</u>	<u>243,872</u>
Total collectible revenue	6,153,865	125,751	550,238	6,829,854
Delinquent taxes	<u>66,354</u>	<u>1,192</u>	<u>1,899</u>	<u>69,445</u>
2008 property tax revenue	<u>\$ 6,220,219</u>	<u>\$ 126,943</u>	<u>\$ 552,137</u>	<u>\$ 6,899,299</u>

### Note 15 - Property Taxes (Continued)

Properties are assessed as of December 31. The related property taxes are billed on July 1 and become a lien on December 1 of the following year. These taxes are due on September 1, with the final collection date of February 28 before they are added to the county tax rolls.

The refuse (solid waste and recycling) millage was approved specifically for the use in providing those services to the City. The voted debt millage is dedicated to the retirement of specific long-term debt. To the extent property tax revenue exceeds related expenditures, the excess amounts are reserved for those specific uses. The activity relating to the refuse and voted debt for the year ended June 30, 2008 is as follows:

	Refuse	Voted Debt
Revenue:		
Property tax revenue	\$ 552,137	\$ 126,943
Other	17,591	-
Total revenue	569,728	126,943
Direct expenses	566,085	127,350
Excess of revenue over (under) expenditures	3,643	(407)
Reserved fund balance - Beginning of year	82,045	(79,215)
Reserved fund balance - End of year	<u>\$ 85,688</u>	<u>\$ (79,622)</u>

## **Required Supplemental Information**

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# City of Saline, Michigan

## Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2008

	Original Budget	Amended Budget	Actual	Variance With Amended Budget
<b>Revenue</b>				
Property taxes	\$ 6,510,705	\$ 6,465,134	\$ 6,347,162	\$ (117,972)
Licenses and permits	173,500	138,604	168,866	30,262
State sources	857,408	853,649	806,928	(46,721)
Charges for services	738,200	709,198	801,494	92,296
Fines and court costs	111,000	91,000	110,018	19,018
Interest earnings	160,000	220,000	327,964	107,964
Special assessments	100	100	245	145
Land sales collections	229,500	-	-	-
Other	470,769	393,216	436,724	43,508
Total revenue	9,251,182	8,870,901	8,999,401	128,500
<b>Expenditures</b>				
General government:				
Administration	1,678,790	1,631,831	1,324,495	307,336
Finance department	228,244	228,244	238,713	(10,469)
Assessor department	196,112	191,112	195,177	(4,065)
Clerks department	321,550	320,050	312,090	7,960
Treasurer department	300,262	302,862	294,654	8,208
Municipal buildings	134,000	129,000	146,050	(17,050)
Service center	116,402	96,402	77,814	18,588
Zoning board of appeals	3,500	1,500	147	1,353
Motor pool	338,923	315,923	317,493	(1,570)
Planning commission	15,500	11,465	7,177	4,288
Total general government	3,333,283	3,228,389	2,913,810	314,579
Public safety:				
Police	2,196,222	2,212,451	2,018,024	194,427
Fire	330,005	330,005	330,005	-
Total public safety	2,526,227	2,542,456	2,348,029	194,427

# City of Saline, Michigan

## Required Supplemental Information Budgetary Comparison Schedule - General Fund (Continued) Year Ended June 30, 2008

	Original Budget	Amended Budget	Actual	Variance With Amended Budget
<b>Expenditures (Continued)</b>				
Public works:				
Emergency preparedness	\$ 2,500	\$ 1,200	\$ 891	\$ 309
Public works	358,071	355,671	383,109	(27,438)
Storm drains	88,205	79,205	49,094	30,111
Sidewalks	35,251	25,251	22,558	2,693
Street lights	214,249	214,249	211,097	3,152
Mosquito control	22,500	10,985	9,891	1,094
Total public works	720,776	686,561	676,640	9,921
Cemetery	70,555	70,555	81,966	(11,411)
Recreation and culture:				
Historical commission	34,815	14,040	33,622	(19,582)
Parks and beautification	403,182	410,045	316,258	93,787
Celtic festival	85,869	85,869	90,118	(4,249)
Total recreation and culture	523,866	509,954	439,998	69,956
Debt service	345,105	328,694	328,694	-
Legislative:				
City Council	59,225	59,225	52,322	6,903
Elections	27,700	27,700	17,043	10,657
Total legislative	86,925	86,925	69,365	17,560
Engineering department	269,700	241,700	219,285	22,415
Building department	237,500	217,500	212,594	4,906
Capital outlay	188,240	247,020	174,354	72,666
Other	104,561	78,790	74,142	4,648
Total expenditures	8,406,738	8,238,544	7,538,877	699,667
<b>Transfers to Other Funds</b>	767,345	727,345	727,345	-
Total expenditures and transfers to other funds	9,174,083	8,965,889	8,266,222	699,667
<b>Revenue Over (Under) Expenditures and Transfers</b>	77,099	(94,988)	733,179	<u>\$ 828,167</u>
<b>Fund Balance - Beginning of year</b>	2,746,667	2,746,667	2,746,667	
<b>Fund Balance - End of year</b>	<u>\$ 2,823,766</u>	<u>\$ 2,651,679</u>	<u>\$ 3,479,846</u>	



# City of Saline, Michigan

## Required Supplemental Information Budgetary Comparison Schedule - Refuse (Component of General Fund) Year Ended June 30, 2008

	Original Budget	Amended Budget	Actual	Variance With Amended Budget
<b>Revenue</b>				
Property taxes	\$ 554,292	\$ 556,762	\$ 552,137	\$ (4,625)
State sources	18,561	4,640	-	(4,640)
Interest earnings	15,000	15,000	17,591	2,591
Total revenue	587,853	576,402	569,728	(6,674)
<b>Expenditures</b> - Solid waste and recycling	616,634	585,447	566,085	19,362
<b>Revenue Over (Under) Expenditures</b>	(28,781)	(9,045)	3,643	<u><u>\$ 12,688</u></u>
<b>Fund Balance</b> - Beginning of year	82,045	82,045	82,045	
<b>Fund Balance</b> - End of year	<u><u>\$ 53,264</u></u>	<u><u>\$ 73,000</u></u>	<u><u>\$ 85,688</u></u>	

# City of Saline, Michigan

## Required Supplemental Information Budgetary Comparison Schedule - Fire Special Assessment (Component of General Fund) Year Ended June 30, 2008

	Original Budget	Amended Budget	Actual	Variance With Amended Budget
<b>Revenue</b> - Contributions and other	\$ 335,005	\$ 340,005	\$ 330,028	\$ (9,977)
<b>Expenditures</b> - Fire	<u>332,005</u>	<u>331,208</u>	<u>329,830</u>	<u>1,378</u>
<b>Revenue Over Expenditures</b>	3,000	8,797	198	<u><b>\$ (8,599)</b></u>
<b>Fund Balance</b> - Beginning of year	<u>45,005</u>	<u>45,005</u>	<u>45,005</u>	
<b>Fund Balance</b> - End of year	<u><b>\$ 48,005</b></u>	<u><b>\$ 53,802</b></u>	<u><b>\$ 45,203</b></u>	

# City of Saline, Michigan

## Required Supplemental Information Budgetary Comparison Schedule - Major Special Revenue Fund Major Streets Year Ended June 30, 2008

	Original Budget	Amended Budget	Actual	Variance With Amended Budget
<b>Revenue</b>				
State sources	\$ 430,000	\$ 410,000	\$ 417,037	\$ 7,037
Interest earnings	10,000	25,000	35,853	10,853
Total revenue	440,000	435,000	452,890	17,890
<b>Expenditures</b>				
General government	20,000	20,000	20,000	-
Highways and streets	599,392	589,482	294,157	295,325
Total expenditures	619,392	609,482	314,157	295,325
<b>Transfer to Other Funds</b>	80,000	80,000	80,000	-
Total expenditures and transfers to other funds	699,392	689,482	394,157	295,325
<b>Revenue Over (Under) Expenditures and Transfers</b>	(259,392)	(254,482)	58,733	<u><u>\$ 313,215</u></u>
<b>Fund Balance - Beginning of year</b>	845,113	845,113	845,113	
<b>Fund Balance - End of year</b>	<u><u>\$ 585,721</u></u>	<u><u>\$ 590,631</u></u>	<u><u>\$ 903,846</u></u>	

# City of Saline, Michigan

## Required Supplemental Information Budgetary Comparison Schedule - Major Special Revenue Fund Local Streets Year Ended June 30, 2008

	Original Budget	Amended Budget	Actual	Variance With Amended Budget
<b>Revenue</b>				
State sources	\$ 134,000	\$ 129,000	\$ 126,166	\$ (2,834)
Interest earnings	5,000	6,000	11,768	5,768
Other	<u>2,000</u>	<u>6,000</u>	<u>5,974</u>	<u>(26)</u>
Total revenue	141,000	141,000	143,908	2,908
<b>Transfer from Other Funds</b>	<u>140,000</u>	<u>80,000</u>	<u>80,000</u>	<u>-</u>
Total revenue and transfers from other funds	281,000	221,000	223,908	2,908
<b>Expenditures</b>				
General government	10,000	10,000	10,000	-
Highways and streets	<u>248,591</u>	<u>286,254</u>	<u>204,568</u>	<u>81,686</u>
Total expenditures	<u>258,591</u>	<u>296,254</u>	<u>214,568</u>	<u>81,686</u>
<b>Revenue and Transfers Over (Under) Expenditures</b>	22,409	(75,254)	9,340	<u><b>\$ 84,594</b></u>
<b>Fund Balance - Beginning of year</b>	<u>308,863</u>	<u>308,863</u>	<u>308,863</u>	
<b>Fund Balance - End of year</b>	<u><b>\$ 331,272</b></u>	<u><b>\$ 233,609</b></u>	<u><b>\$ 318,203</b></u>	

# City of Saline, Michigan

## Required Supplemental Information Budgetary Comparison Schedule - Major Special Revenue Fund Municipal Streets Year Ended June 30, 2008

	Original Budget	Amended Budget	Actual	Variance With Amended Budget
<b>Revenue - Interest earnings</b>	\$ 70,000	\$ 140,000	\$ 48,100	\$ (91,900)
<b>Transfer from Other Funds</b>	<u>127,345</u>	<u>127,345</u>	<u>127,345</u>	<u>-</u>
Total revenue and transfers from other funds	197,345	267,345	175,445	(91,900)
<b>Expenditures</b>				
Highways and streets	21,000	21,100	21,100	-
Debt service	<u>197,431</u>	<u>197,431</u>	<u>213,551</u>	<u>(16,120)</u>
Total expenditures	218,431	218,531	234,651	(16,120)
<b>Transfer to Other Funds</b>	<u>60,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total expenditures and transfers to other funds	<u>278,431</u>	<u>218,531</u>	<u>234,651</u>	<u>(16,120)</u>
<b>Revenue and Transfers Over (Under)     Expenditures and Transfers</b>	(81,086)	48,814	(59,206)	<u><u>\$ (108,020)</u></u>
<b>Fund Balance - Beginning of year</b>	<u>1,129,264</u>	<u>1,129,264</u>	<u>1,129,264</u>	
<b>Fund Balance - End of year</b>	<u><u>\$ 1,048,178</u></u>	<u><u>\$ 1,178,078</u></u>	<u><u>\$ 1,070,058</u></u>	

# City of Saline, Michigan

## Required Supplemental Information Budgetary Comparison Schedule - Major Special Revenue Fund Saline Recreation Complex Year Ended June 30, 2008

	Original Budget	Amended Budget	Actual	Variance With Amended Budget
<b>Revenue</b>				
Charges for services	\$ 1,140,500	\$ 1,144,588	\$ 1,101,103	\$ (43,485)
Interest earnings	20,000	20,000	10,446	(9,554)
Other	165,070	168,870	169,642	772
Total revenue	1,325,570	1,333,458	1,281,191	(52,267)
<b>Transfer from Other Funds</b>	310,000	270,000	270,000	-
Total revenue and transfers from other funds	1,635,570	1,603,458	1,551,191	(52,267)
<b>Expenditures</b>				
General government	15,000	15,000	15,424	(424)
Recreational and cultural	1,250,854	1,208,288	1,240,360	(32,072)
Capital outlay	26,000	89,045	62,875	26,170
Debt service	335,979	335,979	335,920	59
Total expenditures	1,627,833	1,648,312	1,654,579	(6,267)
<b>Revenue and Transfers Over (Under)</b>				
Expenditures	7,737	(44,854)	(103,388)	<u>\$ (58,534)</u>
<b>Fund Balance - Beginning of year</b>	397,788	397,788	397,788	
<b>Fund Balance - End of year</b>	<u>\$ 405,525</u>	<u>\$ 352,934</u>	<u>\$ 294,400</u>	

## **Other Supplemental Information**

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# City of Saline, Michigan

## Other Supplemental Information Components of the General Fund Balance Sheet June 30, 2008

	General Fund	Fire Department Special Assessment	Solid Waste and Recycling	Total General Fund
<b>Assets</b>				
Cash and cash equivalents	\$ 3,983,026	\$ 46,104	\$ 131,174	\$ 4,160,304
Receivables - Net	210,204	-	-	210,204
Due from component units	21,331	-	876	22,207
Total assets	<u>\$ 4,214,561</u>	<u>\$ 46,104</u>	<u>\$ 132,050</u>	<u>\$ 4,392,715</u>
<b>Liabilities</b>				
Accounts payable	\$ 413,760	\$ 901	\$ 46,332	\$ 460,993
Accrued and other liabilities	200,953	-	30	200,983
Due to other funds	2	-	-	2
Due to component units	120,000	-	-	120,000
Total liabilities	734,715	901	46,362	781,978
<b>Fund Balances</b>				
Reserved	-	-	85,688	85,688
Unreserved and designated	303,862	-	-	303,862
Unreserved and undesignated	3,175,984	45,203	-	3,221,187
Total fund balances	<u>3,479,846</u>	<u>45,203</u>	<u>85,688</u>	<u>3,610,737</u>
Total liabilities and fund balances	<u>\$ 4,214,561</u>	<u>\$ 46,104</u>	<u>\$ 132,050</u>	<u>\$ 4,392,715</u>



# City of Saline, Michigan

## Other Supplemental Information Components of the General Fund Statement of Revenue, Expenditures, and Changes in Fund Balance Year Ended June 30, 2008

	General Fund	Fire Department Special Assessment	Solid Waste and Recycling	Total General Fund
<b>Revenue</b>				
Property taxes	\$ 6,347,162	\$ -	\$ 552,137	\$ 6,899,299
Licenses and permits	168,866	-	-	168,866
Federal sources	-	-	-	-
State sources	806,928	-	-	806,928
Charges for services	801,494	-	-	801,494
Fines and court costs	110,018	-	-	110,018
Interest earnings	327,964	-	17,591	345,555
Special assessments	245	-	-	245
Other	436,724	-	-	436,724
Total revenue	8,999,401	-	569,728	9,569,129
<b>Expenditures</b>				
Current:				
General government	2,913,810	-	-	2,913,810
Public safety	2,348,029	(198)	-	2,347,831
Public works	676,640	-	566,085	1,242,725
Cemetery	81,966	-	-	81,966
Recreation and culture	439,998	-	-	439,998
Legislative	69,365	-	-	69,365
Building department	212,594	-	-	212,594
Engineering department	219,285	-	-	219,285
Other	74,142	-	-	74,142
Capital outlay	174,354	-	-	174,354
Debt service	328,694	-	-	328,694
Total expenditures	7,538,877	(198)	566,085	8,104,764
<b>Excess of Revenue Over Expenditures</b>	1,460,524	198	3,643	1,464,365
<b>Other Financing Uses</b> - Transfers out	(727,345)	-	-	(727,345)
<b>Excess of Revenue Over Expenditures and Other Financing Uses</b>	733,179	198	3,643	737,020
<b>Fund Balances</b> - Beginning of year	2,746,667	45,005	82,045	2,873,717
<b>Fund Balances</b> - End of year	<u>\$ 3,479,846</u>	<u>\$ 45,203</u>	<u>\$ 85,688</u>	<u>\$ 3,610,737</u>

# City of Saline, Michigan

## Other Supplemental Information Combining Balance Sheet Nonmajor Governmental Funds June 30, 2008

	<u>Capital Projects Funds</u>			
	DPW Construction Bond	Building Authority	Permanent Fund - Cemetery Perpetual Care	Total Nonmajor Governmental Funds
<b>Assets</b>				
Cash and cash equivalents	\$ -	\$ 28,912	\$ 835,555	\$ 864,467
Receivables - Net	-	-	2,536	2,536
Total assets	<u>\$ -</u>	<u>\$ 28,912</u>	<u>\$ 838,091</u>	<u>\$ 867,003</u>
<b>Fund Balances</b>				
Unreserved, reported in:				
Capital projects	\$ -	\$ 28,912	\$ -	\$ 28,912
Special Revenue Funds	-	-	838,091	838,091
Total fund balances	<u>\$ -</u>	<u>\$ 28,912</u>	<u>\$ 838,091</u>	<u>\$ 867,003</u>

# City of Saline, Michigan

## Other Supplemental Information Combining Statement of Revenue, Expenditures, and Changes In Fund Balances - Nonmajor Governmental Funds Year Ended June 30, 2008

	<u>Capital Projects Funds</u>		Permanent	Total
	DPW	Building	Fund -	Nonmajor
	Construction	Authority	Cemetery	Governmental
	Bond		Perpetual	Funds
			Care	
<b>Revenue</b>				
Charges for services	\$ -	\$ -	\$ 54,533	\$ 54,533
Interest earnings	<u>1,652</u>	<u>6,637</u>	<u>33,493</u>	<u>41,782</u>
Total revenue	1,652	6,637	88,026	96,315
<b>Expenditures</b>				
General government	-	425	-	425
Capital outlay	69,318	-	-	69,318
Debt service	<u>16,411</u>	<u>321,407</u>	<u>-</u>	<u>337,818</u>
Total expenditures	<u>85,729</u>	<u>321,832</u>	<u>-</u>	<u>407,561</u>
<b>Excess of Revenue Over (Under) Expenditures</b>	(84,077)	(315,195)	88,026	(311,246)
<b>Other Financing Sources - Transfers in</b>	<u>-</u>	<u>330,000</u>	<u>-</u>	<u>330,000</u>
<b>Net Change in Fund Balances</b>	(84,077)	14,805	88,026	18,754
<b>Fund Balances - Beginning of year</b>	<u>84,077</u>	<u>14,107</u>	<u>750,065</u>	<u>848,249</u>
<b>Fund Balances - End of year</b>	<u>\$ -</u>	<u>\$ 28,912</u>	<u>\$ 838,091</u>	<u>\$ 867,003</u>

# City of Saline, Michigan

## Other Supplemental Information Balance Sheet/Statement of Net Assets Component Unit - Economic Development Corporation June 30, 2008

	Modified Accrual Basis	Adjustments	Statement of Net Assets
<b>Assets</b>			
Cash and cash equivalents	<u>\$ 35,375</u>	\$ -	\$ 35,375
<b>Liabilities and Fund Equity</b>			
<b>Liabilities</b>			
Accounts payable	\$ 4,695	-	4,695
Due to primary government	<u>2,870</u>	<u>-</u>	<u>2,870</u>
Total liabilities	7,565	-	7,565
<b>Fund Equity</b> - Fund balance - Unreserved - Designated for subsequent year's expenditures			
	<u>27,810</u>	<u>(27,810)</u>	<u>-</u>
Total liabilities and fund equity	<u><u>\$ 35,375</u></u>		
<b>Net Assets</b> - Unrestricted		<u>27,810</u>	<u>27,810</u>
Total net assets		<u><u>\$ -</u></u>	<u><u>\$ 27,810</u></u>

# City of Saline, Michigan

## Other Supplemental Information Statement of Revenue, Expenditures, and Changes in Fund Balance/Net Assets - Budget and Actual Component Unit - Economic Development Corporation Year Ended June 30, 2008

	Modified Accrual Basis			Statement of Activities
	Budget	Actual	Adjustments	
<b>Revenue</b>				
Contribution from the Tax Increment Finance				
Authority of the City of Saline	\$ 135,000	\$ 135,000	\$ -	\$ 135,000
Fees and charges for services	8,690	12,811	-	12,811
Interest and other	2,100	2,639	-	2,639
Total revenue	145,790	150,450	-	150,450
<b>Expenditures</b>				
Administrative	53,000	53,000	-	53,000
Community events	26,100	25,479	-	25,479
Community relations	6,000	6,495	-	6,495
Conferences and training	500	295	-	295
Other	1,732	979	-	979
Professional services	32,050	23,933	-	23,933
Promotional improvements	27,250	28,028	-	28,028
Rental expense	28,357	28,357	-	28,357
Repairs and maintenance	7,168	5,718	-	5,718
Supplies and postage	600	2,688	-	2,688
Utilities	6,000	6,796	-	6,796
Total expenditures	188,757	181,768	-	181,768
<b>Excess of Expenditures Over Revenue/ Change in Net Assets</b>	(42,967)	(31,318)	-	(31,318)
<b>Fund Balance/Net Assets - Beginning of year</b>	59,128	59,128	-	59,128
<b>Fund Balance/Net Assets - End of year</b>	<u>\$ 16,161</u>	<u>\$ 27,810</u>	<u>\$ -</u>	<u>\$ 27,810</u>

# City of Saline, Michigan

## Other Supplemental Information Balance Sheet/Statement of Net Assets Component Unit - Tax Increment Finance Authority June 30, 2008

	Modified Accrual Basis	Adjustments	Statement of Net Assets
<b>Assets</b>			
Cash and cash equivalents	\$ 504,789	\$ -	\$ 504,789
Due from primary government	<u>14,193</u>	<u>-</u>	<u>14,193</u>
Total assets	<u><b>\$ 518,982</b></u>	-	518,982
<b>Liabilities and Fund Equity</b>			
<b>Liabilities</b>			
Due to other governmental units	\$ 91,257	-	91,257
Due to primary government	<u>38,125</u>	<u>-</u>	<u>38,125</u>
Total liabilities	129,382	-	129,382
<b>Fund Equity</b> - Fund balance - Unreserved - Designated for subsequent year's expenditures			
	<u>389,600</u>	<u>(389,600)</u>	<u>-</u>
Total liabilities and fund equity	<u><b>\$ 518,982</b></u>		
<b>Net Assets</b> - Unrestricted		<u>389,600</u>	<u>389,600</u>
Total net assets		<u><b>\$ -</b></u>	<u><b>\$ 389,600</b></u>

# City of Saline, Michigan

## Other Supplemental Information Statement of Revenue, Expenditures, and Changes in Fund Balance/Net Assets - Budget and Actual Component Unit - Tax Increment Finance Authority Year Ended June 30, 2008

	Modified Accrual Basis			Statement of
	Budget	Actual	Adjustments	Activities
<b>Revenue</b>				
Contribution from the City of Saline - General				
Property taxes	\$ 1,150,679	\$ 1,079,878	\$ -	\$ 1,079,878
Interest earnings	30,000	22,587	-	22,587
<b>Total revenue</b>	<b>1,180,679</b>	<b>1,102,465</b>	<b>-</b>	<b>1,102,465</b>
<b>Expenditures</b>				
Administrative	200,290	100,058	-	100,058
Capital outlay	-	-	11,400	11,400
Community development:				
Debt service	-	-	386,580	386,580
Distributions to other taxing units	-	28,129	-	28,129
Highways and streets	-	-	178,079	178,079
Other	94,000	91,862	-	91,862
Contributions to City of Saline funds:				
General	11,500	11,400	(11,400)	-
Major streets	178,082	178,079	(178,079)	-
Saline recreation complex	386,060	386,580	(386,580)	-
Water and sewer	126,629	122,239	-	122,239
Contributions to the Economic Development Corporation of the City of Saline	135,000	135,000	-	135,000
<b>Total expenditures</b>	<b>1,131,561</b>	<b>1,053,347</b>	<b>-</b>	<b>1,053,347</b>
<b>Excess of Revenue Over Expenditures/ Change in Net Assets</b>	<b>49,118</b>	<b>49,118</b>	<b>-</b>	<b>49,118</b>
<b>Fund Balance/Net Assets - Beginning of year</b>	<b>340,482</b>	<b>340,482</b>	<b>-</b>	<b>340,482</b>
<b>Fund Balance/Net Assets - End of year</b>	<b>\$ 389,600</b>	<b>\$ 389,600</b>	<b>\$ -</b>	<b>\$ 389,600</b>

# City of Saline, Michigan

## Other Supplemental Information Balance Sheet/Statement of Net Assets Component Unit - Local Development Finance Authorities June 30, 2008

	Modified Accrual Basis				
	Sauk Trail District	Shelton District	Total	Adjustments	Statement of Net Assets
<b>Assets</b>					
Cash and cash equivalents	\$ 155,385	\$ 152,303	\$ 307,688	\$ -	\$ 307,688
Due from primary government	142,777	5,656	148,433	-	148,433
Capital assets	-	-	-	40,749	40,749
Total assets	<u>\$ 298,162</u>	<u>\$ 157,959</u>	<u>\$ 456,121</u>	40,749	496,870
<b>Liabilities and Fund Equity</b>					
<b>Liabilities</b>					
Accounts payable	\$ -	\$ 400	\$ 400	-	400
Due to primary government	10,042	16,588	26,630	-	26,630
Long-term debt	-	-	-	75,000	75,000
Total liabilities	10,042	16,988	27,030	75,000	102,030
<b>Fund Equity - Fund balance - Unreserved -</b>					
Designated to subsequent year's expenditures	288,120	140,971	429,091	(429,091)	-
Total liabilities and fund equity	<u>\$ 298,162</u>	<u>\$ 157,959</u>	<u>\$ 456,121</u>		
<b>Net Assets</b>					
Invested in capital assets - Net of related debt				40,749	40,749
Unrestricted				354,091	354,091
Total net assets				<u>\$ -</u>	<u>\$ 394,840</u>



# City of Saline, Michigan

	Modified Accrual Basis				
	Sauk Trail District		Shelton District		Total
	Budget	Actual	Budget	Actual	
<b>Revenue</b>					
Property taxes	\$ 440,511	\$ 440,511	\$ 375,682	\$ 375,682	\$ 816,193
Interest earnings	15,000	16,542	8,000	7,804	24,346
Total revenue	455,511	457,053	383,682	383,486	840,539
<b>Expenditures</b>					
Administrative	52,050	51,739	47,100	39,706	91,445
Debt service	-	-	84,950	84,950	84,950
Distribution to other taxing units	-	-	-	11,435	11,435
Contributions to City of Saline funds:					
Municipal streets	186,392	170,277	128,908	128,909	299,186
Water and sewer	163,218	163,214	86,604	82,365	245,579
Total expenditures	401,660	385,230	347,562	347,365	732,595
<b>Excess of Revenue Over Expenditures/Change in Net Assets</b>	53,851	71,823	36,120	36,121	107,944
<b>Fund Balance/Net Assets - Beginning of year</b>	216,297	216,297	104,850	104,850	321,147
<b>Fund Balance/Net Assets - End of year</b>	<u>\$ 270,148</u>	<u>\$ 288,120</u>	<u>\$ 140,970</u>	<u>\$ 140,971</u>	<u>\$ 429,091</u>

**Other Supplemental Information**  
**Statement of Revenue, Expenditures, and Changes in**  
**Fund Balance/Net Assets - Budget and Actual**  
**Component Unit - Local Development Finance Authorities**  
**Year Ended June 30, 2008**

Adjustments	Statement of Activities
\$ -	\$ 816,193
-	24,346
-	840,539
-	91,445
224,186	309,136
-	11,435
(299,186)	-
-	245,579
(75,000)	657,595
75,000	182,944
(109,251)	211,896
<u>\$ (34,251)</u>	<u>\$ 394,840</u>

# **City of Saline, Michigan**

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**Report to the City Council  
June 30, 2008**



**Plante & Moran, PLLC**

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To the City Council  
City of Saline, Michigan

We have recently completed our audit of the basic financial statements of the City of Saline, Michigan (the "City") for the year ended June 30, 2008. In addition to our audit report, we are providing the following summary of unrecorded possible adjustments, recommendations, and informational comments which impact the City:

	<u>Page</u>
<b>Results of the Audit</b>	1-3
<b>Summary of Unrecorded Possible Adjustments</b>	4
<b>Other Recommendations</b>	5
<b>Informational</b>	6-7

We are grateful for the opportunity to be of service to the City of Saline. Should you have any questions regarding the comments in this report, please do not hesitate to call.

*Plante & Moran, PLLC*

September 25, 2008

## **Results of the Audit**

We have audited the financial statements of the City of Saline (the "City") for the year ended June 30, 2008 and have issued our report thereon dated September 25, 2008. Professional standards require that we provide you with the following information related to our audit.

### **Our Responsibility Under U.S. Generally Accepted Auditing Standards**

As stated in our engagement letter dated July 14, 2008, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. We are responsible for planning and performing the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. As part of our audit, we considered the internal control of the City of Saline, Michigan. Our consideration of internal controls was solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal controls.

We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters and our audit of the financial statements does not relieve you or management of your responsibilities.

### **Planned Scope and Timing of the Audit**

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on July 14, 2008.

### **Significant Audit Findings**

#### ***Qualitative Aspects of Accounting Practices***

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the City of Saline, Michigan are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2008. Please note that the activities of the General Fund shown in the financial statements include activities associated with Fire Special Assessment and Refuse. This is an acceptable practice under GAAP. Also, please note in the current year that the enterprise activities were divided into two separate funds, the Water Fund and the Sewer Fund.

We noted no transactions entered into by the City of Saline, Michigan during the year for which there is a lack of authoritative guidance or consensus.

There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

### ***Difficulties Encountered in Performing the Audit***

We encountered no significant difficulties in dealing with management in performing and completing our audit.

### ***Corrected and Uncorrected Misstatements***

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. The attached schedule, summary of unrecorded possible adjustments, summarizes the uncorrected misstatement of the financial statements. Management has determined that its effect is immaterial, both individually and in the aggregate, to the financial statements taken as a whole. In addition, there were misstatements detected as a result of audit procedures and corrected by management, none of which were material, either individually or in the aggregate, to the financial statements taken as a whole.

### ***Disagreements with Management***

For the purpose of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

### ***Management's Representations***

We have requested certain representations from management that are included in the management representation letter obtained as of the date of this letter.

### ***Management's Consultations with Other Independent Accountants***

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the City's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

### ***Other Audit Findings or Issues***

In the normal course of our professional association with the City, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, business conditions affecting the City, and business plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition of our retention as the City's auditors.

This information is intended solely for the use of the City Council and management of the City of Saline, Michigan and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

**Plante & Moran, PLLC**

A handwritten signature in black ink that reads "Leslie J. Pulver". The signature is written in a cursive style with a large, stylized 'L'.

Leslie J. Pulver

A handwritten signature in black ink that reads "Martin J. Olejnik". The signature is written in a cursive style with a large, stylized 'M'.

Martin J. Olejnik

## SUMMARY OF UNRECORDED POSSIBLE ADJUSTMENTS

The pretax effect of misstatements and classification errors identified would be to increase (decrease) the reported amounts in the financial statement categories identified below:

Ref. #	Description of Misstatement	Current Assets	Long-term Assets	Current Liabilities	Long-term Liabilities	Equity	Revenue	Expenses
<b>KNOWN MISSTATEMENTS:</b>								
AI	None noted							
<b>ESTIMATE ADJUSTMENTS:</b>								
CI	Governmental activities - To accrue for possible property tax refunds	\$ -	\$ -	\$ 30,000	\$ -	\$ -	\$ (30,000)	\$ -
CI	General Fund - To accrue for possible property tax refunds	-	-	25,000	-	-	(25,000)	-
CI	Aggregate other funds - To accrue for possible property tax refunds	-	-	5,000	-	-	(5,000)	-
BI	None noted							
<b>IMPLIED ADJUSTMENTS:</b>								
	None noted							



## **Other Recommendations**

As a result of the various audit procedures performed during this year's audit, we have the following recommendations that we would like to communicate with you:

### **Depreciation**

During the audit, it was noted that depreciation was not calculated consistently for newly acquired assets, as stated in the current fixed asset policy. Although the inconsistencies do not result in significant differences, the City should follow their policy or adjust as deemed necessary.

### **Capital Assets**

The City should consider performing a fixed asset inventory to account for each department's capital assets and to help identify any assets that may have been disposed of in the last couple of years. In addition, we recommend that the City also implement a formal asset disposal policy.

### **Outstanding Receivables**

During the audit, it was noted that there are various immaterial receivables that have been outstanding in excess of six months (a receivable from the State of Michigan as well as other miscellaneous items). We recommend that the City pursue collection of these receivables and, if deemed uncollectible, either set an allowance for doubtful accounts or write them off.

### **Account Reconciliations**

As mentioned in prior years, we noted accounts, excluding cash accounts, in the tax collections and payroll Trust and Agency Funds have not been reconciled regularly by the City. The City has made good progress over the past few years. We suggest that the City continue to examine this activity and reconcile all accounts on a regular basis.

### **Property Tax Appeals**

During the audit, through confirmation with the City's attorney, it was noted that there are various outstanding cases regarding appeals of property tax values. The attorney is unable to assess if there will be any damages or settlements at this time. We recommend that the City perform a calculation at year end based on the probability of the proposed tax value decreases to determine the extent of the possible refund, and accrue the liability in the appropriate funds, if deemed appropriate.

## **Informational**

### **Property Tax Revenue**

Recent conditions in the real estate market are expected to have a negative impact on taxable values. The good news is that a given drop in market values will not result in an equivalent drop in taxable values. On the other hand, this dampened effect is diminished each year we continue with market declines. In other words, if we were to experience a theoretical 10 percent market decline three years in a row, the effect on taxable value (which would be different for each community) might be a 1 percent drop the first year, 4 percent the next year, and 7 percent in the third year. Additionally, there are various current investments in the City that are under construction with pending abatement applications for a term lasting until December 2012. Therefore, it will be important to closely monitor taxable values in the upcoming years.

### **Potential Legislation Impacting Property Taxes**

As a response to the situation with the real estate market, legislation is being discussed in Lansing to adjust the mechanics of the general property tax act. The nature of the legislation has ranged from the suspension of the “pop-up” or increase in taxable value that occurs when a property sells or a “super cap” on taxable value that prohibits an increase in taxable value when market values are declining. The outcome of this legislation could also have a significant impact on the City.

Lastly, more personal property tax relief is also part of the new Michigan business tax. Business personal property classified as “industrial” or “commercial” will be exempt from certain personal property taxes - specifically from the state education tax (SET) and local school operating mills. Industrial personal property will receive exemptions from the six SET mills and the 18 schools operating mills (for a total 24 mill exemption). Commercial personal property will be exempt from 12 of the 18 school operating mills. You will need to be careful in creating the tax billings at July 1, 2008, since the millage exemption is reduced in the following two situations: (a) if the school district levied less than 18 mills in 1993 or (b) the district was a hold harmless district (because it had a foundation in excess of \$6,500 in 1994-1995). Refer to State Tax Commission Bulletin 2007-11 for more detailed information.

### **State-shared Revenue**

State-shared revenue continues to be a significant revenue source for the City. The governor’s 2009 budget is anticipating another decline in total sales tax collections, which will result in a reduced constitutional state-shared revenue. While the governor’s original budget offset this with an increase in the statutory portion, the May revenue estimating conference casts a shadow over their ability to do so. The City should continue to budget state-shared revenue very conservatively, until we see stronger evidence of a state economic recovery.

## **Retiree Healthcare Benefits**

As we have mentioned in prior correspondence, governmental accounting pronouncements will require the City to begin to record its liability for retiree healthcare benefits in the City's fiscal year ending June 30, 2009. However, as mentioned in prior years, the City is part of an elite minority of communities that have already taken action in order to address this GASB pronouncement, including obtaining an actuarial valuation, and has begun to accumulate resources to fund the future liability. As of June 30, 2008, the City has contributed over \$900,000 to fund the liability. Additionally, the City has reviewed the benefits and made revisions to the benefits of future employees which will help decrease the burden going forward.

## **Report on Investments to the Council**

A new law was passed in December 2007 for reporting on investments to the Council. The management is now required to report on investments at least quarterly. While the law prescribes no minimum information requirements, we feel that the report should include a list of investments with the financial institution each issued through, the amount, and perhaps the stated interest rate.

## **Municipal Finance Act Revisions - Reminder**

The Municipal Finance Act was amended several years ago. Communities are now required to submit a filing once a year with the Michigan Department of Treasury. The old 10-day "exemption from prior approval" process has been eliminated and is replaced with this qualification process. This filing will serve as a pre-approval for future debt issues. The current filing is due within six months of the City's year end and is good for one year thereafter. The City should consider the need to file a qualifying statement for each of its component units.

## **Closing**

We would like to thank the City Council for the opportunity to serve as auditors for the City. We would also like to express our appreciation for the courtesy and cooperation extended to us by the administration during the audit. If you would like to discuss any of these matters, or would like assistance in their implementation, please contact us.